# FOUR TRUTHS ABOUT TODAY'S COMMUNITY BANK SHAREHOLDER

Second in a series: 75% of what you think you know about shareholders is wrong

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In the current community banking environment, it is time to reveal some "truths" about directors, shareholders, and the regulators. As the Good Book says, "The truth will set you free," or in the alternative, it may at least help you make a profit, enhance value for your shareholders, and run a good bank. This is the second in a series of blogs about the hard truths about your directors (last week), shareholders and regulators. --Jeff Gerrish

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I've got more "hard truths" associated with community banks in the current environment. This week's blog focuses on the typical shareholder base of most community banks. Some of the truths are as follows:

1. The shareholders of your holding company may have changed more than your board and organization has.

When many community banks started, they were the only bank in town, particularly those that are over 50 years old.

Everybody in town held a share of stock. It would have been impossible, due to the emotional attachment to the bank and its shares, to do anything but attempt to pry that stock loose from the shareholders' cold, dead fingers. When they passed on, the stock was also similarly "passed on" to relatives.

But three or four generations later, the emotional attachment that was once associated with that stock is gone.

It is now a financial investment. The shareholders expect return--even if it involves shrinking the bank, closing locations, expanding in new areas, and the like.

Also, the truth is, out-of-state shareholders really do not care about your community.

2. If some shareholders want to sell, let them (or make them).

As many of you know, in connection with the board's obligation to enhance shareholder value, the board also has an obligation to provide liquidity for the shares, i.e., the ability of a shareholder to sell a share of stock at a fair price at the time they want.

Most community banks do not have market liquidity, even those who remain public after the JOBS Act , i.e. those with greater than 2,000 shareholders.

It is the board's job to provide liquidity for shareholders. This is generally accomplished through a holding company. Using that tool, the bank may provide a walk-in repurchase plan for those who want to sell. Alternatively, the bank may use the holding company to proactively go after your shareholders, offering to repurchase their shares.

The holding company can also "make" certain shareholders sell if the board's desire is to restructure the shareholder base, e.g., get rid of out-of-state shareholders and the like. These transactions are really pretty simple.

3. Shareholders likely care only about share liquidity, as noted above, and a cash dividend, or something similar.

In other words...

- • Shareholders really do not care about asset growth.

- • They do not care if you open more branches.

- • They do not care if your bank is $200 million or $250 million.

What they do care about is, can they sell their stock at a fair price at the time they want? And will that stock return anything?

Also, those with a long-term investment horizon obviously care that the value of the stock accelerates.

But remember this: Most shareholders are not bankers. They do not care about the numbers. They care about the impact of the bank's performance on them personally.

4. The truth is, minority shareholders should not dictate to the majority.

The board's obligation is to address the best interests of the organization through a majority of its shareholders. The board also has an obligation to be fair to minority shareholders. (We have a large digital book in our library called Oppression of Minority Shareholders.)

For example, if you think the majority of your shareholders would be better off in a Subchapter S and you can get 50% of the shares to vote in favor, then do it, even though a couple of minority shareholders do not want to. They can be cashed out at a fair price.

These are just some of the truths about shareholders.

Keep in mind the board's primary obligation is to enhance shareholder value.

Next week I'll talk about regulators.

About the Author

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Gerrish formerly served as Regional Counsel for the Memphis Regional Office of the FDIC, with responsibility for all legal matters, including cease-and-desist and other enforcement actions. Before coming to Memphis, Gerrish was with the FDIC Liquidation Division in Washington, D.C. where he had nationwide responsibility for litigation against directors of failed banks.

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