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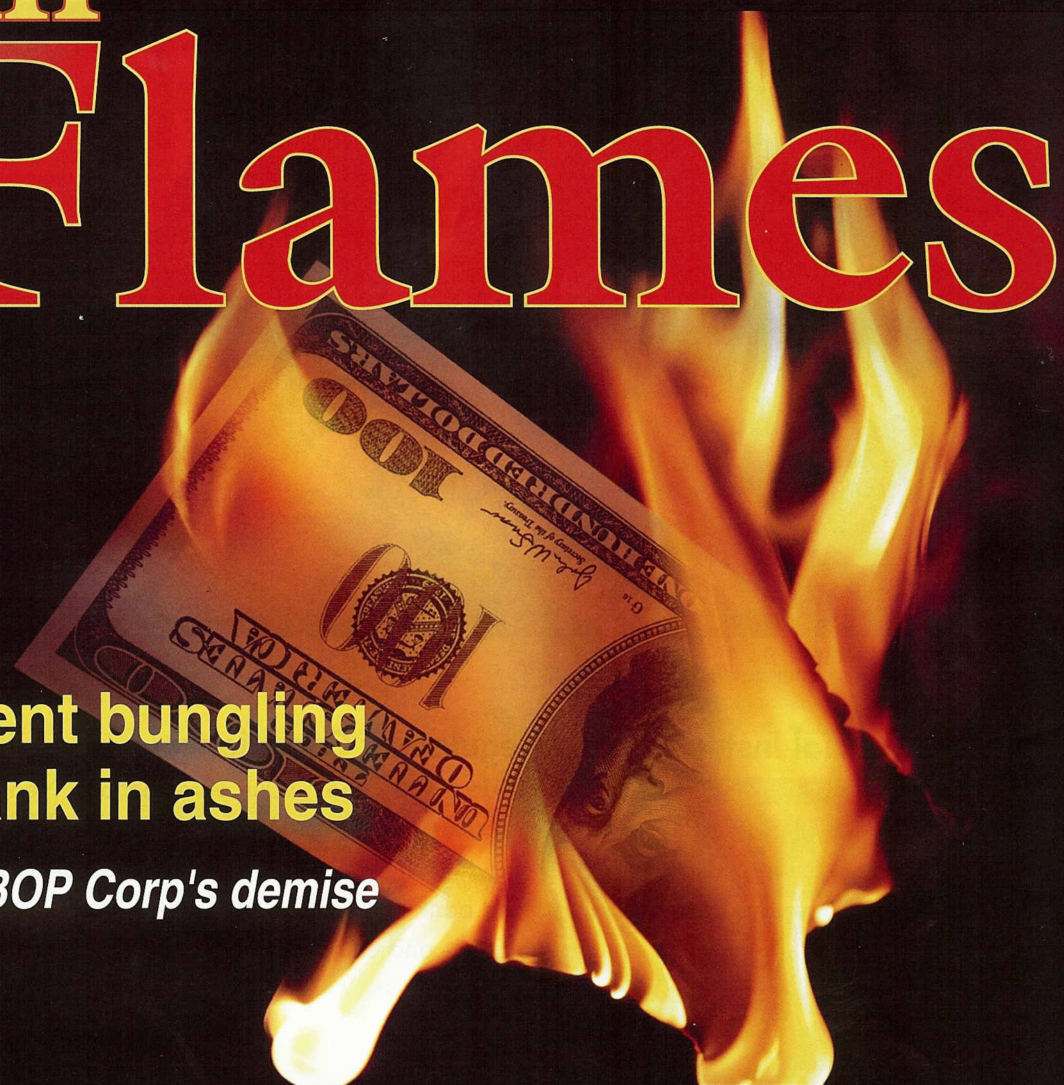
up in Flames



Government bungling leaves bank in ashes

The story of FBOP Corp's demise

Credit unions: Capital constrained

Tips for good corporate governance

FDIC to open Chicago office

By Catherine Ghiglieri

Board of Directors

What to do in a post-bailout era

Corporate governance has never been more important. Here are seven suggestions for improving the effectiveness of your bank's board of directors.

Select an outside chairman of the board. More boards are going to an outside chairman who is neither a bank officer nor related to the bank CEO. Having an outside chairman can prevent the board from being dominated by one person and provide an atmosphere for input by all board members.

Distribute board packets in advance. Banks have various means of providing information to their board members, ranging from requiring the board members to come into the bank to review their packet, to emailing the board packet to them well in advance of the meeting. Prior to emailing, however, an analysis of the security of email should be made, as well as the sensitivity of the board information. Rather than relying on email, some banks make the packets available by having board members log onto a secure portion of the bank's web site.

While there is no one right way to provide information to the board prior to meetings, board packets should never be handed out at the board meetings. Distributing information to directors in this manner does not allow them time to appropriately prepare for the meetings. Ideally, the board packet should be sent to the board members a week prior to the board meting. This allows the board members time to reflect on what is going to be discussed.

Review board packets for relevance. Many board packets contain the same information they did 25 years ago. As regulators have required directors to review more information over the years, the board packets have grown. Rarely is anything deleted. The board packets in many banks have become unwieldy and filled with distracting, unnecessary information. When board packets contain so much information that is of lesser importance, it distracts directors from focusing on the most important issues.

Now is a good time for a thoughtful, objective review of the board packets to ensure that the information provided is relevant, particularly in light of how the bank may have grown over the years. For example, directors might still be reviewing each overdraft on a given date as it did when the bank was $25 million in assets. But now that the bank is $250 million in assets, it might be time to streamline this report to just the large overdrafts. Another example is where a board reviews each loan made in a given month, where the report could be streamlined to reflect only those loans over a certain threshold dollar amount.

Hold executive sessions at each meeting. Public companies are required to have executive sessions of the board without management. This is a best practice that should be extended to private companies. An executive session at each board meeting can serve as a tonic for the non-management board members, as well as the bank executives, even if the executive sessions only last a few minutes. The executive session provides a forum for discussion of issues without management present and allows the independent members an opportunity to obtain the views of others without the influence of bank executives. Additionally, bank executives won't feel panicked by executive sessions if they occur every meeting.

Review audit committee composition. Public companies are required to have all independent board members on the audit committee, with a committee chairman who is considered a financial expert such as a CPA or someone who can read and understand financial statements. This is a best practice that should be extended to private companies. While there are specific rules regarding how independence is established, generally audit committee members should not be bank officers or related to bank officers.

Review composition and size of the board. Many bank boards have been together for years, with no recent changes in composition, if ever. Some boards contain many members of one family, perhaps all related to the bank's CEO. Some boards consist of only five directors. A review of the composition and size of the board may be in order.

Public companies are required to have a majority of directors be "independent." The definition of "independence" is quite complex, but generally means that if a director is not an officer or employee of the bank, or is not related in some way to bank employees, or has not been employed by the bank for the past three years, he or she is considered "independent." This is a best practice that should be extended to private companies. The addition of board members to attain a majority of independent directors will add a new dimension to the decision-making process of the board.

A certain number of board committees are necessary for the proper supervision of the bank. Most banks have six or

Corporate governance, *Continued on page 17*

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FEDERAL RESERVE WEEKLY FILINGS

Jan. 23: The Citizens State Bank of Choteau, Mont., authorized to merge with The First National Bank of Fairfield, Mont., and establish branches in Choteau and Vaughn.

Notice filed by Vernon R. Pfaff, Fairbury, Ind., to acquire more than 10 percent of the shares of United Commerce Bancorp, Bloomington, Ind., and thereby acquire control of United Commerce Bank, Bloomington.

Cabool State Bank ESOP, Cabool, Mo., filed to increase its ownership up to 31.67 percent from 30.63 percent in Cabool Bancshares, Inc., and thereby increase its control of Cabool State Bank.

Midland States Bank, Effingham, Ill., filed to purchase 13 branches of Amcore Bank, N.A., Rockford, Ill.

Jan. 16: First State Bank Southwest 2002 Amended and Restated KSOP Plan and Trust, Worthington, Minn, authorized to acquire shares of First Rushmore Bancorporation, Inc., Worthington, and thereby acquire First State Bank Southwest, Pipestone, Minn.

Bank of Commerce, Chanute, Kan., filed to merge with First State Bank of Thayer, Kan., establish a branch and operate under the title of Bank of Commerce.

Jan. 9: Stockgrowers State Bank ESOP, Ashland, Kan., authorized to acquire additional shares of Stockgrowers Banc Corporation, Ashland, and its subsidiary banks, Stockgrowers State Bank of Ashland, and Peoples Bank, Coldwater, Kan.

Notice filed by Hans J. Welker, White Lake, Mich., to acquire more than 25 percent of Clarkston Financial Corporation, Waterford, Mich., and thereby acquire control of Clarkston State Bank, Clarkston, Mich.

Notice filed by John E. Helgerson, Ottumwa, Iowa, to acquire additional shares of Hedrick Bancorp, Inc., Hedrick, Iowa, and thereby indirectly Hedrick Savings Bank, Ottumwa.

Lake Central Financial, Inc., Annandale, Minn., filed to become a bank holding company by acquiring Annandale State Bank, Annandale.

Colorow Investment Corp, Greenwood Village, Colo., filed to become a bank holding company through the acquisition of TBHC, Inc., Englewood, Colo., parent of Centennial Bank, Centennial, Colo.

First National Management Group, LLC, Greenwood Village, Colo., filed to become a bank holding company through the acquisition of at least 93 percent of Amoret Bancshares, Inc., parent of BC National Banks, both in Butler, Mo.

STATE FILINGS

Indiana

Bank of Wolcott authorized to open a branch.

Iowa

Iowa Bank, Bellevue, filed to merge with Fidelity Bank & Trust, Dubuque.

VisionBank of Iowa, West Des Moines, filed to relocate its principal place of business to Grimes.

Kansas

CoreFirst Bank & Trust, Topeka, authorized to open branches in Highlands Ranch, Colo., and Lone Tree, Colo.

Change of control authorized for Kansas City Natural Gas, Inc., Hays, and Douglas County Bank, Lawrence.

Barry Linnens Group, Cedar Point, filed for a change of control involving Pilsen State Bank, Lincolnville.

Missouri

Pony Express Community Bank, St. Joseph, authorized to merge with Bank of Paxton, Neb.

Great Southern Bank, Reeds Spring, authorized to open branches in Forsyth, Mo., Des Peres, Mo., and Overland Park, Kan.

Enterprise Bank & Trust, Clayton, authorized to open a branch in Goodyear, Ariz.

Liberty Bank, Springfield, authorized to open a branch in Ozark.

Community Bank of Raymore authorized to open branches in Harrisonville and Archie.

Wisconsin

Marshfield Savings Bank, Marshfield, filed to open a branch in Medford.

State Bank of Cross Plains filed to merge with Black Earth State Bank, Black Earth. ❖

Corporate Governance*, Continued from page 6*

more committees, such as the loan, audit, asset/liability, trust, governance/nominating, and compensation committees. Because of the number of committees, small boards have difficulty adequately staffing these committees, with directors carrying the burden of sitting on numerous committees. Expansion of these boards to nine or 11 members may be in order so that the directors have time to contribute in meaningful ways to the supervision of the bank.

The collective expertise of a board should also be evaluated to determine whether additional expertise needs to be added. For example, does the board possess banking expertise? Although a requirement for newly-chartered bank boards, this is not imposed on existing banks, but perhaps should be. The board might also benefit from having a CPA or financial expert to serve as the audit committee chairman, as well as expertise that parallels the bank's loan portfolio and other activities.

Hold board member training. Many banks have never provided any training to their board members. Training is important for all board members to assist them in fulfilling their duties and responsibilities, and to give them a basis from which to make sound decisions. However, training is especially critical for new board members, especially for those who are not familiar with general corporate governance, much less the banking industry with all its complex regulations and requirements. New member board training should consist of an orientation session, as well as a training session geared specifically to new bank directors. Refresher courses for seasoned directors should be tailored to understanding the bank's business model, problems in the bank, as well as changes in the regulatory environment. ❖

Follow the money

Congratulations on another excellent editorial in your 12-01-09 edition, entitled "Oh, Senator Dodd."

A good way to fill in the blanks in any politician's resume is to remember this good advice: "Follow the money."

Do you remember his short-lived, ill-fated presidential run in 2008? I wondered how he managed to collect enough money to even ante. Then I discovered that his position as chairman of the senate banking committee had motivated some sizable contributions from some employees of some sizeable financial institutions. Mystery solved.

Washington works in some really simple ways once you understand the rules.

Roger Haugo
Valley Exchange Bank
Lennox, S.D.

Elusive top rating

Your Straight Talk articles are always on target, but your asking for a little help in the Nov. 15 issue was center bull's eye! We just completed an FDIC examination in which they gave us a 1 rating for our small trust department and a 1 rating in liquidity – normally one of the most important letters of CAMELS – but still would not give us a 1 rating for the bank. They had no recommendations for additional contributions to a loan loss reserve, listed no loss or doubtful loans, and wouldn't give us an earnings credit for taking security gains in our investment portfolio! Well, anyway they said we were a high 2.

By the way, how about updating that Straight Talk page photo?

William C. Talen
Talen, Inc.
Traer, Iowa

Editor's response*: Thanks for your letters. We always appreciate the first-hand accounts offered by our readers. Send your Letter to the Editor by regular mail to 7400 Metro Blvd., No. 217, Edina, MN 55439, or by email to Tom@NFRcom.com.*
And, yes, Mr. Talen, I need to update my photo. Look for a new one in an upcoming edition!