With Great Power Comes Great Responsibility

by Steve Brown

Whenever we hear the mantra "with great power comes great responsibility," Spider-Man comes to mind. Indeed, ever since it was uttered by Peter Parker's Uncle Ben in the 2002 film starring Tobey Maguire, it's been solidly linked to the character. Imagine our surprise then when we recently discovered that in the original comic, Ben didn't say it. In Amazing Fantasy #15, the wording is similar, but it appears as part of the narration, rather than as spoken dialogue. What's more, we learned that the motto (though not the exact wording) pre-dates Spidey by many years. It has come up in several speeches by public figures and it's also been attributed to Voltaire, the famous French writer, historian and philosopher. There's even a Biblical reference that states "and from the one who has been entrusted with much, much more will be asked."

Irrespective of its origins, the fact remains that power and responsibility are intricately intertwined in banking. This is certainly true when it comes to bank boards of directors, which since the financial crisis, have been given additional responsibilities and now face greater liability as well. As a result of this increased scrutiny, it shouldn't surprise anyone that it has become more difficult to recruit and retain qualified and engaged directors.

As year-end fast approaches, the time is ripe to review how your board functions and how members are compensated. It's a chance to make sure you're keeping pace with peers and can continue to attract and retain the best quality board candidates. Consider, for instance, that according to the Bank Director's 2014 Compensation Survey, more than 25% of chairman and independent directors who responded are dissatisfied with their compensation. It certainly bears investigation whether this could be the case with your board.

One trend along these lines is that more banks have shifted the responsibility for determining board compensation to a committee. In fact, according to Bank Director, the percentage was 60% in 2014 vs. 44% in 2013. This is a good approach because it takes the onus off CEOs and eliminates potential conflicts of interest.

While the majority of banks including PCBB utilize a compensation committee, nearly 10% of banks say they continue to rely on their CEO to set director compensation, according to the Bank Director study. If you're one of those banks, maybe it is time to consider using a broader array of factors to determine board pay and rolling it into a committee.

While you're looking at board compensation practices, it's also advisable to take stock of whether your board has equity ownership guidelines for directors. Such guidelines typically determine the minimum number or total value of shares that a board member should own and establish a time frame for acquiring the shares. These guidelines help assure that directors are making the best decisions for shareholders. Yet 41% of publicly traded banks and 51% of privately held banks don't have stock ownership guidelines in place, according to the survey.

Given the power bank directors hold, it's important to be able to attract and retain the best possible candidates. Periodically reviewing how your board functions is essential to maintaining a well-functioning group and a high level of investor confidence in your bank.

BANK NEWS

M&A

Pacific Continental Bank ($1.5B, OR) will acquire Capital Pacific Bank ($237mm, OR) for about $42.4mm in cash (40%) and stock (60%).

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MidWestOne Bank ($1.7B, IA) will acquire Central Bank ($1.2B, MN) for about $133mm in cash and stock or roughly 1.59x tangible book.

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Level One Bank ($646mm, MI) will acquire Lotus Bank ($102mm, MI) for about $16.8mm or roughly 1.3x book.

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First Savings Bank of Perkasie ($1.0B, PA) will acquire First Federal Savings and Loan Association of Bucks County ($726mm, PA) for an undisclosed sum.

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Farmers State Bank ($99mm, NE) will acquire Bank of Stapleton ($25mm, NE) for an undisclosed sum.

AOCI Election

An astute regulator alerted us to the fact that banks must make a permanent election to opt out of the AOCI election in the Mar 31, 2015 Call Report (and not the Dec 31, 2014 Call Report) or the bank will automatically stay in. Note that the election is contained in the Mar 31, 2015 Call Report and not in the Dec 31, 2014 Call Report, even though the Dec report is technically the first one filed in 2015.

HVCRE Clarification

Regulatory information indicates that under Basel III a 150% risk weight is assigned to high volatility commercial real estate exposures (HVCRE). These exposures include: credit facilities that finance the acquisition, development or construction (ADC) of real property unless the facility finances 1-4 family residential properties or certain commercial real estate (CRE) properties. For CRE to be excluded from this classification: the LTV ratio (calculated at origination) must be less than or equal to the applicable maximum supervisory LTV ratio or the borrower must contribute capital to the project (cash, unencumbered readily marketable assets or paid development expenses out of pocket) of at least 15% of the appraised as completed value and the borrower contributed capital must be from outside sources and remain in the project over its life (until the credit facility is converted to permanent financing, is sold or paid in full).