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CAMELS Consulting Group: Charting a New Course for Shareholder Growth



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CAMELS Consulting Group: Charting a New Course for Shareholder Growth

Bank Stock Self-Directed IRAs Provide Stock Liquidity and New Shareholder Opportunities for Community Banks.

By Charles M. Cooper

At a time when community banks are challenged with low stock liquidity and aging shareholders, solutions to these issues can seem hard to come by. This is exactly why CAMELS Consulting Group (CAMELS) is continually building new tools to help banks meet these challenges successfully. From strategic consulting services delivered by CAMELS' President and CEO, Edward E. Schmidt, to business and shareholder development software programs, CAMELS provides comprehensive services to community banks across the country that need an experienced partner to help them increase shareholder value.

One particular area of expertise for CAMELS is the set-up and management of bank stock self-directed IRA accounts. CAMELS has been so successful in helping community banks across the country set up and implement bank stock self-directed IRA programs that the company was inspired to create its latest innovation, the CAMELS Self-Directed Resource Center, a web-based online library and interactive community that gives banks access to all of the compliance, operational, and marketing tools they need to implement this type of program. In addition, the CAMELS Self-Directed Resource Center subscription includes staff training and an interactive online forum for support from industry experts and other banks that have successfully implemented a self-directed IRA program.

Schmidt engineered the Resource Center to, as he put it, "Make it as easy as possible for banks to benefit from the self-directed IRA opportunity. It's something that many banks overlook as a solution to their stock liquidity and shareholder problems, when in fact, it's one of the most beneficial strategies that a bank looking to match dollars from long-term investments can implement."

This is a strategy that Dart Bank, based in Mason, Michigan, has embraced to help reinvent the bank's shareholder base—with solid results. As Dart Bank's President and CEO, Peter Kubacki, explained, "The ownership challenge for us over the past several years has been identifying new local investors to accomplish our goal of continually reinventing our shareholder base while simultaneously being able to handle unexpected block sales and the resultant liquidity issue that follows."

Dart Bank, which has \$325 million in assets, four banking offices and a home loan center was, like many community banks, impacted by the growing pressures

of an aging shareholder base. The bank's shareholders are looking to turn their long-term investments into cash. Additionally, the company had been contacted by trust departments representing family holdings seeking to sell large blocks of stock, causing a large number of shares to be suddenly placed up for sale. This created liquidity concerns and put pressure on the bank's price per share.

"The bank stock self-directed IRA program allowed Dart Bank to attract new shareholders with the ability to increase their stock ownership over time. It also enabled Dart Bank to attract clients in their expanding commercial business portfolio and other privately-held companies to become shareholders," explained Schmidt, who helped the bank's leadership team create and implement the program utilizing as much of the bank's existing infrastructure as possible.

As part of the program set-up, Dart has established an internal trading desk for the buying and selling of shares. The bank has also tapped into a readily available pool of cash that can be easily transferred from a regular IRA, Roth IRA or 401K into a Self-Directed IRA. In addition, the bank provides shareholders with quarterly stock valuations indicating the fair market value (FMV) of the company's stock to keep investor interest high.

Bank stock self-directed IRAs provide an alternative to the challenges associated with brokerage firm accounts.

While some banks choose to have brokerage firms to place their existing common shares in self-directed IRA accounts, CAMELS advises that banks implementing their own self-directed IRA programs can circumvent the unintended negative consequences that working with a brokerage may bring such as:

- Account maintenance fees being charged to account holders.
- The requirement that dividends paid to shareholders must go through DTC in order to be deposited; subjecting banks to the added cost of FINRA fees.
- The inability of bank stock to be sold because it is privately held.
- The placement of a trading symbol on the bank; the first step in becoming a publicly traded stock.
- Privately-held stock being difficult for brokerage firms to place in, or remove from, a self-directed IRA.

Avoiding these undesired outcomes and providing customers and investors with an investment vehicle that offers the ability to hold stock within a brokerage account and meet long-term goals were two of the reasons that Richwood Bank (parent company Richwood Bancshares, Inc.), sought the guidance of CAMELS Consulting Group. Working with CAMELS, the \$450-million community bank located in Richwood, Ohio, has successfully created the internal infrastructure to support a self-directed IRA program.

“Utilizing a bank stock self-directed IRA to support a public stock offering allowed us to attract local, long-term investors with a program in which to use the historically long-term investment dollars of IRAs for investing in bank stock,” said Chad Hoffman, President and CEO of the bank. “In addition, CAMELS Consulting Group helped to set up our bank’s self-directed IRA account holders for additional purchases in subsequent years as they contribute to their IRAs. Our self-directed IRA program is a key element in supporting our stock liquidity, ongoing growth in new shareholder ownership and the concurrent ability to handle large block transactions.”

Bank stock self-directed IRA programs help to build shareholder value for banks large and small.

Schmidt is a firm believer that banks of any size can realize significant shareholder and investor benefits by matching long-term investment dollars associated with IRAs and targeting those dollars for the purchase of bank stock. “Some smaller banks may shy away from the idea of implementing a self-directed IRA program because they believe that only larger institutions can successfully manage one,” Schmidt said. “However, with the right guidance and infrastructure, nothing is further from the truth. In fact, a self-directed bank stock IRA can be a great equalizer for smaller banks.”

This is a fact to which Sherwood Banc Corporation, the holding company of Sherwood State Bank, can attest. Based in Sherwood, Ohio, the bank has \$57 million in assets with four banking offices. It is growing, but the bank is challenged by having a small number of aging shareholders, a need for increasing capital to meet the bank’s growth and stock liquidity pressures. The bank’s Board of Directors looked to CAMELS to help them identify new investor sources that would also satisfy the need for ongoing stock purchases. The self-directed IRA program using the bank’s stock was the perfect vehicle, providing solutions for fulfilling Sherwood’s critical investor needs:

- Identification of new investors within their service community while raising capital to meet bank growth from investors that have not been introduced to investing in a community bank.
- The reinvention of the shareholder base to alleviate lack of stock liquidity due to aging

investors who are reaching the last phase of the investment life cycle (moving from securities to cash).

- Increased stock liquidity through increased investor interest stimulated by quarterly stock valuations.

Since implementing their self-directed IRA program, Sherwood Bank has completed a successful second offering raising capital to support a new bank office facility with many investment dollars brought to the bank through the self-directed IRA program.

Final Words

As community banks work to remain independent and address the key needs of increased stock liquidity and the reinvention of their shareholder bases, Schmidt foresees that more banks will be open to charting a new course and incorporating innovative solutions such as self-directed IRA programs. “Banks that tackle shareholder and stock liquidity issues earlier rather than later will have the advantage,” said Schmidt, “and they can be assured that CAMELS Consulting Group will be ready to help them leverage the available opportunities.”

CAMELS’ Leader Charts New Course for Bank Stock Self-Directed IRA Programs



Edward E. Schmidt, President and CEO of CAMELS Consulting Group, has more than 35 years of executive experience in the banking industry. He is a recognized expert financial witness and has completed more than 1,000 bank stock valuations over the

course of his career. Under Schmidt’s leadership, CAMELS Consulting Group helps banks increase shareholder value and stock liquidity, develop dividend and capitalization strategies, and address the need for shareholder succession. The company recently launched CAMELS’ Self-Directed IRA Resource Center, a subscription-based solution that provides the compliance, operations and marketing expertise banks need to implement a self-directed IRA program immediately. The CAMELS Self-Directed IRA Resource Center also offers a conduit for ongoing staff training.

CAMELS Self-Directed IRA Resource Center

A Simple, Step-by-Step Solution Including the Support of CAMELS Online Community

By 'clicking' on the CAMELS logo you will be immediately taken back to the home page of the site.

Site navigation provides guidance to help you find the information desired.

Read the site usage disclosure including the privacy policy.

All postings maintained here for immediate reference in key categories: Compliance, Marketing, and Operations. New postings are automatically emailed to all site users. Ask a question or respond with an answer.

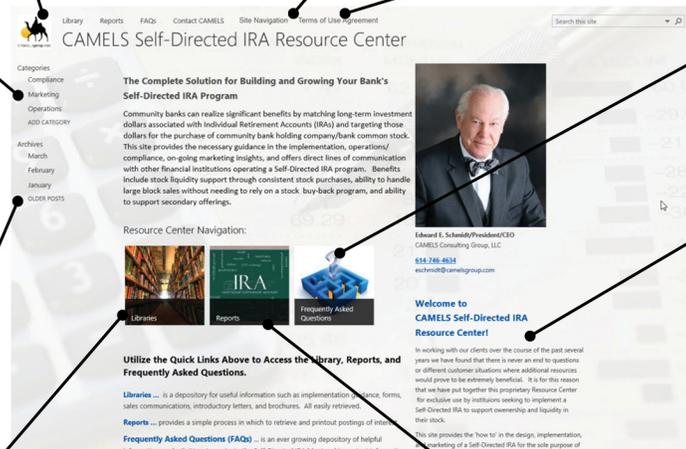
Access FAQs for additional product and site information.

Connect with other banks and industry experts to ask/answer questions and to share resources and insights.

The posting archives make all questions and answers easily accessible.

Easily obtain important implementation guidance for the set-up and management of your program.

Reports in three categories for all forum posts complement library resources. Select and print out for reference purposes.



CAMELS, new Self-Directed Resource Center allows banks of any size to immediately implement and manage their own bank-stock self-directed IRA program. To learn more, visit camelsgroup.com.

Tips for Building, Managing and Marketing Your Bank's Self-Directed IRA Program

Banks setting up a self-directed IRA program often need external support simply because so few institutions have successfully charted the course. In addition, real-time resources and experienced staff are extremely limited in this area. For banks considering this path, the most important building blocks for implementing a self-directed IRA program are:

1. A forms provider.
2. Shareholder accounting software.
3. An affiliation with a core processor.
4. Training resources for designated account staff.
5. A stock valuation program for establishing the fair market value of the stock. An IRA requires, at minimum, an annual valuation.
6. The overall self-directed IRA program should have at least quarterly stock valuations to support shareholder transactions.

In response to this need, CAMELS Consulting Group offers banks the ability to subscribe to a self-directed IRA program resource center that includes comprehensive marketing, compliance and operational resources and an interactive community forum of banks and experts familiar with the self-directed IRA implementation process.



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