Minnesota's Banking Landscape

The Minneapolis-St. Paul Business Journal held a panel discussion about Minnesota's banking landscape. Panelists included Troy Rosenbrook, president, Highland Bank; Steve Meads, president and CEO, MidCountry Bank; Heather Plumski, executive VP, Chief Financial and Strategy Officer, Stearns Bank; Todd Senger, Senior VP Corporate Banking, Dacotah Bank; and Daniel Olson, shareholder, Bassford Remele. Kathy Robideau, market president and publisher of the Journal, served as moderator.

Kathy Robideau: What are the greatest opportunities and challenges you see for your banks in the industry?

Todd Senger: I would say it is the continued trend of margin compression in all our businesses. It's the continued challenge, to stay ahead of the curve, the constant need for further investment, whether that's technology, compliance, or governance. I marvel at how much opportunity is out there for community banks, based upon some of the dislocation that occurred last year that's now creating opportunities.

Steve Meads: Our industry typically wouldn't have an inverted yield curve where long-term rates are lower than short-term rates for any extended period of time. That's hard to operate in, and we've been in it for quite a while. When you have margin pressure, you must manage your costs and expenses, and rising technology costs is a challenge for community banks. We don't have the big asset base to spread some of those costs across.

Troy Rosenbrook: Most organizations have the product components figured out. The costs now are really about cybersecurity and fraud, and protecting not only customers, but the bank as well. That cost is going up every day and it's difficult to manage. One thing that is clear – planning for the expense is no longer an option, but a necessity.

Heather Plumski: I think your comment about working together as community banks is essential. It's amazing, the conversations we've tried to have with community banks, and they just feel like you're invading their territory.

Rosenbrook: It's so critical. Those aren't marketplace issues. That's how we protect ourselves from fraud. That's a good thing for the industry and its customers.

Robideau: What strategies are you employing to retain employees?

Dan Olson: My clients that are most effective in that arena focus most of their attention and resources on treating their employees well. If your employees are treated well and feel valued and respected, they're coming to work every day and invested in the work that they're doing rather than looking to leave. The most important and most successful tools I've seen to accomplish this are fair compensation and PTO, as well as fostering your community where people feel valued.

Senger: I think sometimes banks just traditionally, it's been very boxed in or cagey in terms of transparency around compensation. Especially with the younger generations, there's a different expectation today than 10 or 15 years ago, in terms of the visibility around that.

Plumski: We surveyed employees regarding working from home and from the office; we realized we had to follow what our employees were saying because that's the organization we are, and it's working for us. It's helped us access a lot of additional talent across the nation that we wouldn't have otherwise been able to attract. Today, our team is in 36 states, and more than 80 percent of our staff is remote.

Olson: That's been a huge change nationally since COVID. Suddenly, the ability to work remotely is a term of employment that people are pushing for.

Rosenbrook: Even within banking, it's bank by bank and position by position. Obviously, if you're a teller, it's not remote.

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> **TODD SENGER**
> Dacotah Bank

Meads: We offer hybrid work environments when it's feasible and that's been working well for us. We are also starting to implement ITMs (Interactive Teller Machine). ITM is basically a machine that has a video screen. You're talking to the teller, and they can just handle any kind of transaction that you could do through the teller line.

Rosenbrook: That person could be sitting anywhere. And they could be your best teller, so that might be the way to leverage some of your best talent across the marketplace.

Meads: So, one of the things MidCountry Bank has been looking at is, we try to expose our team members to different departments, so they have many more career options than the department they are in like, deposit operations and loan operations or credit analyst support. We're trying to give them career development opportunities through the entire organization.

Robideau: Do you have more opportunities to do things like that when you're a community bank?

Meads: We have good managers that can be mentors. And most people want to develop and learn, they want to be better, so I think our model works well.

Rosenbrook: I think the bigger challenge is determining how we attract people to the industry? If you get a finance degree, you want to be in private equity. It's sexier.

Senger: I think there's a growing appreciation that when it comes to recruiting and attracting younger talent, you need to think about it through more of a nontraditional lens. You can teach accounting but you can't teach work ethic, attitude or passion for a career.

Meads: One of the advantages that community banks have in that regard is our commitment to community and volunteer activities. We give team members time off to volunteer and support their organizations, and then the bank organizes volunteer activities. And I think the younger generation really values that.

Olson: We're in a talent war, and on top of that talent war is this generational divide that we're all still trying to understand. The younger generation are very much interested in hybrid work or flexibility in working environments. Those are challenges from an older generation standpoint because that's different from how they operated throughout their professional careers. And there's some natural skepticism about whether people lose out on learning opportunities through remote work. But the younger generation, at least from my vantage point, enjoys certainty. So, if you can project what it's going to look like long-term at your institution, they're more apt to stay than if they're living in a world of uncertainty. It's a weird kind of dichotomy where you must allow them to be

MEET THE EXPERTS:

HEATHER PLUMSKI
Executive VP, Chief Financial & Strategy Officer
Stearns Bank

Heather Plumski is Executive Vice President, Chief Financial & Strategy Officer at Stearns Bank and is responsible for the bank's financials and reporting, collaborating with senior management to devise effective planning, and creating actionable goals. She assesses the company's numerous projects and activities, ensuring they align with company objectives. Her experience in credit analysis, regulatory requirements and leadership extends into analyzing success of products, projects and activities for Stearns Bank.

Heather serves as a Board member for Stearns Financial Services, Inc. and is Chair of the Stearns Bank Holdingford, N.A. and Stearns Bank Upsala, N.A. Board of Directors. She is an ESOP Trustee serving on several committees for Stearns Bank, including Enterprise Risk Management Committee, Asset/Liability Management Committee, Audit Committee, and Strategic Planning Committee.

A graduate of the College of St. Benedict, Heather holds a bachelor's degree in accounting and participated in the 2019-2020 Minnesota Bankers Association Leadership Development Academy.

TROY ROSENBROOK
President
Highland Bank

President of Highland Bank since 2017, Troy and the bank's leadership team have built an engaged sales group with a clear mission: maintaining Highland's growth trajectory while establishing its brand as a community bank with diverse commercial banking expertise.

Troy's leadership was cultivated over three decades in the banking industry. After obtaining his B.S. degree in Finance from Minnesota State University-Moorhead, Troy's career path provided insight to both community and national bank cultures across the Midwest.

Troy leans on this experience to make positive change. A member of the Minnesota Bankers Association (MBA) Board of Directors, Troy has a front seat to legislation and regulatory priorities that influence the ability to serve our communities.

In 2023 Troy joined the American Bankers Association Community Bankers Council, representing Minnesota. This council provides a voice for community bankers, serving as a communication resource for initiatives within the banking industry and in public forums.

STEVE MEADS
President & CEO
MidCountry Bank

Steve Meads provides humble, confident leadership, driving success as the President and CEO of MidCountry Bank. Steve joined the organization in 2010 and has strategically selected a team with a unified focus to establish MidCountry as a predominant, locally owned and managed financial service provider in the market.

Steve built his extensive banking career in the Twin Cities, with increasing management oversight for several financial institutions prior to assuming his current role. Steve is adept at navigating and managing multiple business lines in a complex and highly regulated environment.

A strong community supporter, Steve has extended his leadership to the community through service to the YMCA of the North, Ronald McDonald House Charities, and the Woodbury Community Foundation. He currently serves on the board of Saint Therese, a senior care organization supporting multiple facilities across the Twin Cities.

Steve holds a Bachelor of Arts in Economics from Carleton College and a Master of Business Administration in Finance from the University of Wisconsin, Madison.

TODD SENGER
Senior Vice President
Corporate Banking
Dacotah Bank

Todd Senger is Group Head of Dacotah Bank Corporate Banking, bringing extensive experience working with private and public companies on improving shareholder value, financings, M&A, liquidity optimization and strategy. Originally from Aberdeen, SD, Todd joined Dacotah Bank in 2023 based on his relationships with executives and shareholders.

Prior to joining Dacotah Bank, Todd held multiple roles at BMO Commercial Bank, including Group Head of the Diversified Industries Group, where he led the Bank's commercial banking locations across the U.S.

Todd received his Bachelor of Arts degree in Economics and Business Management from St. John's University and obtained his MBA from the University of St. Thomas. An active member of the community, he has previously served on the boards of Greater MSP, Greater Twin Cities United Way, and Ronald McDonald House.

DANIEL R OLSON
Shareholder
Bassford Remele

Daniel Olson is a commercial and employment law litigator at Bassford Remele, with a record of successfully trying, arbitrating, and mediating a variety of disputes. He represents clients ranging from Fortune 500 companies to non-profit organizations to individuals. Dan regularly represents banks in unfair-competition cases involving non-competition agreements, non-solicitation agreements, and trade-secret theft. Dan also regularly counsels and trains employers and other lawyers on a variety of employment matters, including discrimination and harassment laws, leave and accommodation issues, and non-competes and restrictive covenants. He currently teaches employment law at the University of St. Thomas School of Law. Dan has been named to the Minnesota Rising Stars list and Best Lawyers: Ones to Watch for his proficient work across the full spectrum litigation. In addition, he serves as Co-Chair of Bassford Remele's Employment Group and is also a member of Bassford's Board of Directors.

flexible, but at the same time also offer them certainty.

Rosenbrook: I don't disagree with anything that you said. But I think that conversation about generations is more complicated than maybe you suggest. There are nuances in every one of those groups. To put them all in the same category and build a strategy around that - I just don't find it to be effective. Your point is good. I think it's about flexibility and meeting people where they want to be.

Olson: Not only are we dealing with different asks, demands, long-term goals, but we're dealing with different people within that realm on a day-to-day basis. To treat everyone as an individual rather than a category is going to be even more important as we try to figure out who these younger workers are and what they want.

Rosenbrook: Employees ask regularly, "Do I have to turn the camera on?" - It's a conversation I had with someone today, as a matter of fact.

Olson: What did you say?

Rosenbrook: I said, "well, if the meeting would have been in person prior to COVID, then I would expect you to treat it similarly, and use the camera. If you are a presenter in a meeting, I expect you to use the camera. But if you had been on a large group call, then I don't expect you to have the camera on."

Senger: Kathy, I'd like to go back to your question around talent. There is so much more storytelling and branding community banks could do. I think starting to tell more of that story, that's how you attract the talent so that they don't feel like they're giving up something if they join your organization.

Robideau: Do you think mergers and acquisitions will continue for community banks?

Meads: Yes. Part of the reason is the rising cost of operating the financial institution. If you have a bigger asset base to spread that across, it's much more manageable. Community banks are willing to sit down and spend the time to figure out a more complicated deal than people realize. A lot of these big banks, if it fits in the box, it's a go. If it doesn't, it's a no go. If you come to a community bank, we'll spend the time to try to figure out how we get as close enough to the box to make it a go. One of the advantages of banks is very knowledgeable, experienced people. That's one of our core strengths from an industry standpoint.

Meads: Community banks have a lot of ability to do complex deals than people realize, and I think the bigger banks are really, when they get focused on something, their box can get pretty small and pretty tight. Community banks have a larger, longer-term perspective.

Plumski: As community banks shrink, so do all the small businesses. We're in this big "mega everything" situation; it's not effective. So, I agree, we still need to work together.

Robideau: Can you share how you're navigating the landscape of commercial real estate, considering the market conditions and challenges?

Rosenbrook: Our loan portfolio was approximately 45 percent investor real estate, and while there is some distress in that, our portfolio is performing quite well. Generally, we're not part of large tower financing, which is where the majority of the stress is occurring. It's not the world we play in. We're in small and midsize projects in Minneapolis and St. Paul and surrounding suburbs. The vast majority of these are performing reasonably well. While there may be some challenges, they're not insurmountable. I think if interest rates stay elevated for an extended period, we might have a different conversation. What has changed is the appetite for new exposure because most of the properties don't perform the same way they did 24 months ago. Cap rates and interest rates have gone up, which means the most likely the values have declined. Like a lot of things in credit, it's all about leverage.

Robideau: Let's delve into current interest rates, their potential trajectory, and how they'll influence strategic decisions.

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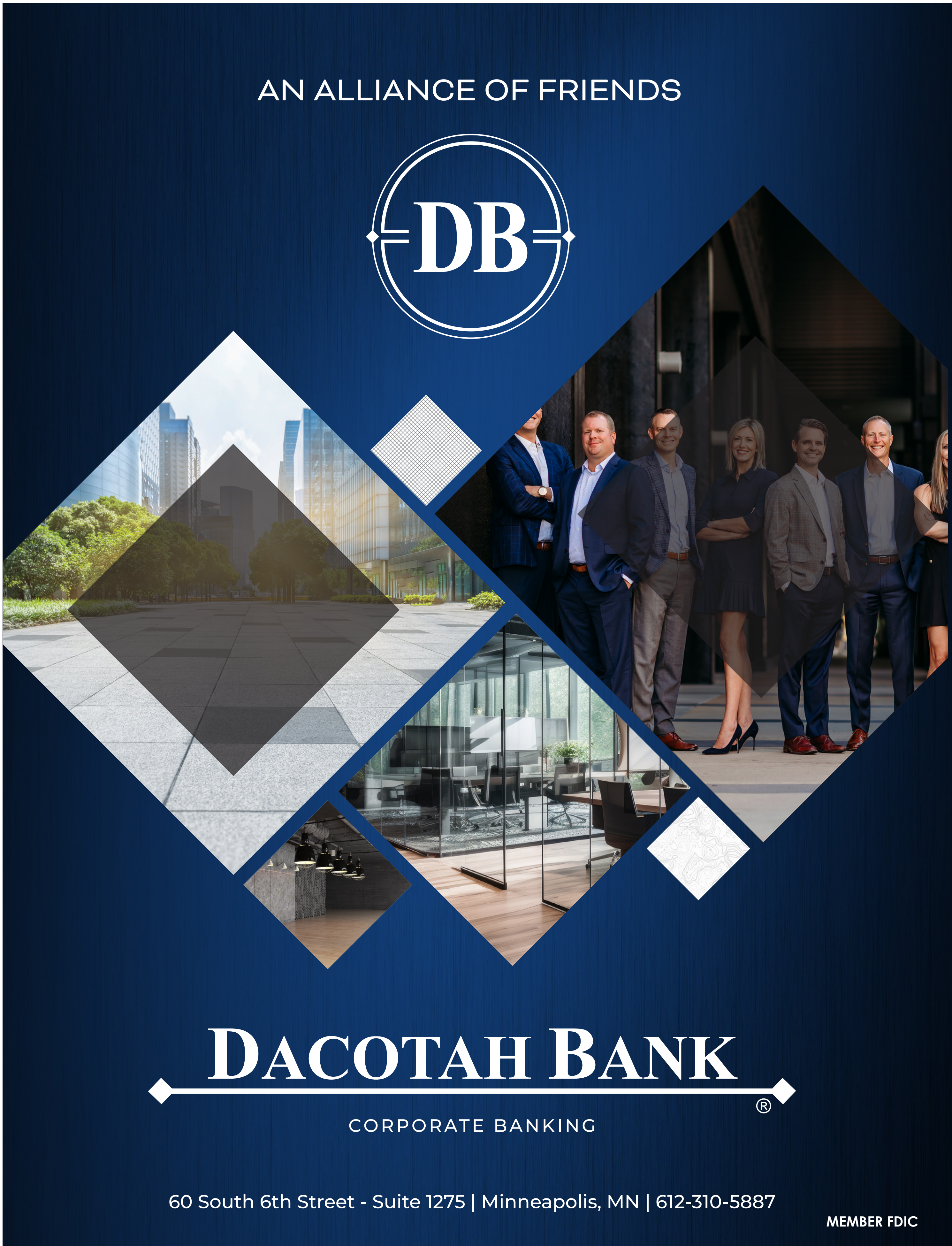


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Rosenbrook: In the press, many times the conversation is about short-term rates. But most of us here are longer-term lenders. So, perspective depends on whether we are talking about short-term rates, mortgage rates, or five-year commercial rates. Frankly, they all have moved very differently in the last six months. If you look at the yield curve, it has fluctuated about three separate times over the last few months. There has been greater volatility in interest rates recently than we’ve seen over the last decade.

Plumski: We’ve been really cautious on originations. I agree our portfolio is in good shape. We’re not in the towers either.

Senger: I think you’re going to see more and more dislocation occurring, in which certain banks don’t want to take on additional commercial real estate exposure. The opportunities that are out there may be some of the better credit quality deals that folks have seen in years, because of loan values, the sponsors behind some of these projects, and the amount of equity that they have. For us as individuals that are willing to listen to the story and maybe think outside of the box, there’s opportunity ahead.

Meads: The economics right now are requiring more equity than in the past. Interest rates are higher. And some of the cash flows on these commercial real estate loans are requiring more equity than in the past. But if you get the balance right and the management team is solid and strong, I think the banks can figure that out.

Robideau: Cryptocurrencies: challenges and opportunities?

Olson: We had a discussion on the board level last year about whether we could accept cryptocurrency payments. As more people start actually transacting in crypto, the more it’s going to bleed through various industries. We advise clients on financial security, and we’ve had to educate ourselves on what cryptocurrency entails, what the advantages or disadvantages are, because our clients want to know.

Robideau: How would you describe the current scenario regarding access to loans and capital?

Senger: Lending standards and credit appetite is tighter than last year. Therein lies the opportunity for community banks, to the extent you have the balance sheet to support some of these opportunities. If the soft landing prevails, lending standards will continue to loosen as the months and weeks go by. But right now, access to capital looks a little bit different. And I don’t see that changing materially in 2024.

Plumski: I would just add that while business owners might feel like they don’t have a lot of access, we, as community bankers are critical for them – we are open to a conversation. Maybe there are specific scenarios that make lending to a particular small business challenging, but we could find mitigations for it. Regarding the interest rate environment, we hear that customers are choosing to use cash reserves over financing. Cash is important to keep powder dry in uncertain times, so I wouldn’t suggest reducing cash reserves but rather keep cash on the balance sheet and get some financing.

Meads: I look at it from a different perspective; one of the strengths that community banks have is a strong deposit base with our local customers. If you have a strong deposit base, you don’t have the liquidity concerns some other banks have. Four or five years ago, deposit rates and everything was so low that getting deposits wasn’t an issue. Today the type of liquidity and type of deposits is much more challenging.

Senger: Most banks specifically here in Minnesota are very strong. So, it’s just making sure that your audience appreciates the differences between the different banks, who they serve, and how they serve them.

Robideau: So, what would you recommend to businesses in general, to keep a strong balance sheet?

Rosenbrook: It’s the first time in about 20 years that the balance sheet matters for business owners seeking financing. Until recently, it was all about income statements and cash flow. Interest rates were low on the debt on the balance sheet, so the level of debt didn’t matter very much because there was always access to capital, and the cost of capital was low. Right now, the challenge for most businesses is to make sure that they’re not overleveraged. Many borrowers were paying three or four or five percent a year and a half ago. Now they’re paying 7-10 percent, and leverage matters again.

Senger: I think Heather nailed it. Cash is king, liquidity is king. If you are coming to have a conversation about an expansion or M&A opportunity, that’s going to require some leverage. And so, it’s just making sure that people appreciate that data and history, and proof and execution really matters. It’s a different environment in terms of whether it’s borrower friendly or bank friendly at the moment.

Robideau: Let’s discuss AI and its implications in banking. What are your thoughts on artificial intelligence’s role in the banking sector?

Olson: Our sense is that cybersecurity rates are only going to increase with the advent of AI. From an insurance standpoint, the risk is probably going to necessitate higher premiums than other lines. But if you can’t keep pace with this change, you’re going to get left behind. The capabilities of AI right now are going to be different six months from now and dramatically different 12 months from now.

Rosenbrook: This is not a policy we write and put away for 12 months and then look at it. We’re careful, and we put in place a policy that governs how we use this technology. It’s important to understand that most of us are using AI already. If you’re using any kind of fraud detection or any kind of customer chat feature, you’re using it.

Olson: The most recent iteration of a product that I saw last week had considered the

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user's tone and emotional state.

Rosenbrook: As we referenced earlier, the fraud component continues to evolve at rapid pace. From what I understand, you can record a small voice sample from someone. Then, the bad actor can use that recording to impersonate the individual to transfer funds or whatever action might be requested. Without good validation tools in place, the bank won't be able to determine that it wasn't a genuine request. That is one of the things that scares me.

Olson: It's a great opportunity for community banks to figure out how to address the new technology and how to utilize it effectively, and safeguard against the risks.

Robideau: In 2018, Chase said that they were going to add about 30 branches to the Twin Cities market. Today they announced they're almost doubling that to 60. What are your thoughts on that?

Senger: They're doing it right. They're making the necessary investment, attracting the right talent. They're delivering in a way that's clearly resonating with a client base. Part of it is just mindset, part of it is commitment, and part of it is executing through the talent that you attract. At the end of the day, this is a people business.

Robideau: Do you feel like that's a key competitive advantage, talent?

Senger: Without a doubt. You live or die by talent, whether you're a manufacturer, whether you're a law firm, it's all about people.

Rosenbrook: It's not about whether branches are good or bad, or branches are dead; it's about the appropriate location of those branches relative to your other branches and how we serve our customer base.

Olson: It seems like that's a competitive advantage that community banks have.

Rosenbrook: Well, I think it is because we're well-known with that customer base, with people that we've done business with for 30 years.

Senger: Community banks are only going to get stronger over the next five to 10 years, because they're going to have opportunities that as an industry we just haven't had, whether it be dislocation, our ability to sit down and customize things, the ability to be a good active listener. Meanwhile, the Chases and BAMLs of the world are stronger because they have infrastructure and scale where they can spread this cost. It's going to allow them to capture margin and market share and become even stronger.

Meads: The advantages that we get come from relationships, and so often those relationships come up when there's an issue or problem. Do you want to sit down with the community bank that is going to take the time to understand that and try to help you? To me, community banking is like an insurance policy. You build a relationship and if there's an issue or a problem, you have somebody you can talk to, and we'll help you solve that problem.

Senger: The access to decision makers is more top of mind today for your audience who's borrowing money than ever. Not only access to the decision maker, but more importantly, how are decisions made here?

Olson: One of the things that Steve just talked about is the ability to leverage your relationships as a community banker. You in theory are empowering people to build those relationships, and then potentially profit on them long term. If you're a people person, and you're engaging, it's a great career opportunity for you as a community banker.

Senger: You have a voice, and you have a seat at the table where decisions are being made.

Olson: And then they also get the emotional benefit of building trust. I mean, you truly are a problem solver and a solution builder on your own at the same time.

Robideau: Do you anticipate an increase in nontraditional customers and business owners, along with nontraditional loan and capital requests?

Rosenbrook: The challenge for the large banks is that they end up competing more directly with some of the fintechs that deliver that same transactional business even more efficiently than they can. You want to borrow $100,000 for your business, and you want to go online and complete a quick little application. There are a bunch of fintechs that will deliver that product to you in 24, 48 hours, something like that. But if you have an issue or want to talk to someone, you can't find those people.

Plumski: Absolutely, we community banks are great at listening and putting structures in place that support any unique scenario; whether that is traditional or non-traditional – supporting diversification is what we do well!

Rosenbrook: Understand the community that you serve.

Senger: Look like the communities you serve to serve the communities you want to serve. I mean, it's the reality of life for customers.

Plumski: And to attract customers.