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Unexpected letter from new CEO of a small bank details a big plan

By [Thornton McEnery](#)

It is not very often that the newly minted CEO of a small community bank with less than \$200 million in assets writes an open letter to shareholders and employees for the express purpose of introducing himself and outlining a plan for the bank's future.

It is rarer still when that new chief executive has been at the bank for more than six years, serving as CFO for more than five of those, making his face already familiar to many.



James Black
CEO, Citizens Community Bank
Source: Citizens Community Bank

But what is particularly uncommon about the letter James Black, CEO of South Hill, Va.-based [Citizens Community Bank](#), wrote Dec. 4 is that he used it as an opportunity to outline an aggressive course of action for his bank to write down a growing pool of distressed assets that will, by design, negatively impact the earnings and capital results for this year's fourth quarter, the first report for which he is responsible as CEO.

However, to hear Black explain the letter is to hear a man that sees nothing out of the ordinary at all with his actions. "I practice and preach open, honest and candid dialogue, it is my style," Black told SNL during a recent phone conversation, in which he went on to say that he found it strange his letter would be viewed as anything but normal communication among a bank CEO, his shareholders and his staff.

Black [was named](#) CEO of Citizens Community in early November after serving as the bank's CFO since May 2007, a time period that gave him a front-row seat to observe how the mortgage crisis affected the bank's fiscal health.

"Being CFO allowed me to fully understand the financial mechanics of [the bank] as well as the external, local and regional environment," Black said of his tenure in a role that also saw Citizens Community's nonperforming assets-to-

overall assets ratio rise more than 1,550%, going from 0.39% at the end of 2007 to 6.45% for the second quarter of 2012.

That nosedive in asset quality put major stress on the bank, leading to an annual net income of roughly \$6,000 for the fiscal year 2009, a number that constituted a 96.4% year-to-year drop from the approximate \$168,000 net income that Citizens Community realized for 2008. Over that same period, NPAs almost doubled as a percentage of assets, but while the bank managed to rebound, posting major gains in its net income for 2010 and 2011, the quality of its asset portfolio continued to weaken at an alarming rate.

The announced resignation of Citizens Community's former CEO Thomas Manson was accompanied by Manson's simultaneous resignation from the bank's board of directors, which immediately promoted Black to CEO, while also asking him to keep his title of CFO until a proper replacement could be found.

While Black did not comment on the particulars of the moves, the concurrent removal of Manson from all decision-making at the bank and Black's ascension to essentially its top two roles would seem to signal that Citizens Community's board felt that a change was badly needed at the top and that Black was a person they believed in quite strongly.

Judging from the course of action outlined in his letter, the board seems certain to see the bank attempt to repair what was broken before Black took the reins.

With those reins firmly in hand now, Black has chosen to present his bold plan with unvarnished bluntness, writing in his letter that "[w]e are undertaking an aggressive strategy to rid ourselves of stressed credits and other real estate owned by the bank. We anticipate this one-time event to occur during the fourth quarter of 2012, which will have a considerable negative impact on earnings and capital."

The decision to sacrifice the results of the fourth quarter, his first as CEO, is indeed risky but one that Black sees as rational given his philosophy on banking, a perspective that was influenced by his six-year stint as a bank examiner for the Federal Reserve Bank of Richmond.

"Being a bank examiner gave me an excellent fundamental step in banking as well as a great appreciation for risk management practices," Black said of his experience as a regulator, adding, "I learned banking backwards, I learned what not to do."

Black said applying this honed regulatory perspective to his insider knowledge of Citizens Community's position will be very useful in helping to make correct decisions for the bank, decisions that he believes will please shareholders in the long term, even if they do feel some pain in the ledgers over the next few quarters.

"I am, and always will be, concerned about our shareholders," Black said. "They want a return on their investment, but it is difficult to accomplish that when your level of classified and/or nonperforming assets are holding you back."

The strategy that Black is proposing is not without precedent and is in fact reminiscent of the approach taken by Cathy Nash, the CEO of Flint, Mich.-based [Citizens Republic Bancorp Inc.](#) Nash's decision to take drastic action to pull her bank out of a credit-driven spiral by aggressively accelerating the disposition of its NPAs and recognizing major losses on its balance sheet was immediately met with complaints from the board and with sell-offs by investors.

But when Citizens Republic's asset quality turned around so dramatically that Nash was able to engineer a sale of the bank to Akron, Ohio-based [FirstMerit Corp.](#) in September for what [was estimated](#) to be 131.8% of its tangible book value per share, criticism of her boldness turned quickly into praise.

Although Black told SNL that he was unaware of Nash and her story, he did see, and appreciate, some similarities with his own plan.

"I am not trying to copy any specific playbook," said Black when apprised of the turnaround orchestrated by Nash. "However, in general terms, it seems you are better served to utilize your excess capital and reduce the level of stressed credits owned." Black was also quick to add that while the turnaround at Citizens Republic was impressive, "there is absolutely no intention to sell Citizens Community Bank."

One obvious major difference between Nash's move at Citizens Republic and Black's intentions at Citizens Community is the relative size of the two banks. But while the former holds assets of \$9.72 billion and the latter holds only \$163.8 million, the rate at which their NPAs grew to strangle their relative growth after 2007 were similarly troubling and still growing when bold action was proposed.

Therefore, while there is no way to claim with certainty that the theory of taking on losses in the short term in order to improve asset quality in the long term is one that fits banks of all sizes, Black does see it as one that should be more frequently attempted among banks with poor credit quality on its loan portfolio regardless of size.

"The size of your problems is always judged in relation to your overall size" Black said, explaining that it is his opinion that it is not the amount of assets a bank holds that should govern its ability to engage in action like the one he is proposing at his own bank, but another metric entirely.

"If you have the capital to do something like this, why not do it?" Black asked rhetorically of any bank of any size that finds itself in an asset quality position like Citizens Community's, before enumerating what other criteria, if any, should be taken into account.

"You have to properly assess where your institution stands on things like its risk structure, the opinion of your shareholders and staff, and ultimately, if it's generally the right type of move for your organization."

These communication-centric criteria seem to be at the crux of Black's reasoning behind the choice of writing the letter.

"Having a teller or constituent feel comfortable enough to discuss their real views and opinions is valuable and important to me, being in front of the communication vine is important, and it helps prevent untruthful or nonfactual rumors that may exist or develop" Black said in regard to the level of transparency he believes necessary to gain an internal consensus of trust in not just his recent, bold decision, but for all of those yet to come.

"To me, this process of open communication is essential, particularly in the role of CEO. People matter and are what drive the business."

Black seems certain that, regardless of its size, this commitment to a free dialogue will allow him to lead his small community bank back to health in the manner he best sees fit to do so.

Or, to use his own words, "Although we are a private financial institution, that doesn't mean you should not communicate to your shareholders."