

Forstrom Bancorporation Inc., parent of Citizens Alliance Bank, Clara City, Minn., is owned by the Forstrom brothers, from left: Philip, chair, John, executive vice president of investments, and Perry, director.





THE RIGHT CIRCUMSTANCES

Minnesota bank builds sprawling franchise through patience, fortitude

By Jackie Hilgert

Forty years have passed between Citizens Alliance Bank's first bank acquisition — made in the early 1980s when the bank was known as Citizens State Bank of Clara City, Minn. — and its most recent, closed last summer. Most of its growth by acquisition has occurred in communities situated near to its west-central Minnesota base, places that look and feel much like Clara City (pop. 1,300). It's a growth strategy borne of opportunity and collegiality and familiarity.

Although bank leadership views its growth, in part, as a result of being “in the right place at the right time,” it also suffered a devastating loss that could be characterized as “wrong place, wrong time.” Through it all, the bank has steadfastly stayed its course — and grown — by focusing on customers, and only on those deals that made sense.

When roads diverge

Drive a two-lane road through the treeless plains of the American Midwest, if you will, and see how the towns that dot the landscape are reassuringly similar. There will be a grain elevator situated beside iron rails. Main Street will feature a tavern or lodge and a cafe where locals swap news with their neighbors. Beyond the main drag, a small grid has been laid for modest

homes. You will pass them, pass a park with a memorial to a forgotten war, pass a church, possibly two. Typically, there will be some ag-adjacent industry on the perimeter, and then it's soil again all the way to the horizon — productive soil, fertile black loam, a gift from retreating glaciers, land that not only feeds the wealth of its owners but also infuses riches into the community. Supporting all of this is a bank whose leaders understand how to serve communities where farming is lifeblood.

A bank like that may as well buy others like it. Citizens Alliance Bank has done so nine times in communities in western Minnesota on its way to \$1.65 billion in assets. But it has also acquired banks — and holds what now amounts to 30 percent of its business — far off in Montana, starting in 1998 in a place where “flat” is missing from the lexicon: Its first Montana acquisition was in Seeley Lake — a postcard setting near Missoula where nature is the draw and recreation is the industry.

That Montana acquisition happened, ironically, because the seller of First Valley Bank, Seeley Lake, didn't see familiarity as an asset or want a fellow Montanan as a buyer. His reasoning? That “he took to his grave,” said John

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Forstrom, EVP of Investments, who co-owns Forstrom Bancorporation Inc., the parent company of Citizens Alliance Bank, with his brothers.

The seller's correspondent banker was Chuck Blair from United Bankers' Bank, Forstrom recounted. "We were in the right place at the right time."

While the view outside the bank window in Seeley Lake was unlike any available to them in Minnesota, the Forstroms saw the opportunity as a good one. "It had strong management and the cultural fit was there, which is so important," Forstrom said.

From an outsider's perspective, maybe it seemed to be a novelty buy. But it was a clean, well-run bank, and the customers responded positively to new ownership.

Before it even ventured into Montana, the bank had made early gains through acquisition: It bought the Security State Bank of Howard Lake, Minn. (1983), and Americana State Bank of Clara City (1987). In the 1990s, it acquired the Security State Bank of Maynard, Minn. (1991), and a U.S. Bank branch in Granite Falls, Minn. (1995).

The acquisition in Seeley Lake in 1998 put the company at roughly \$117 million as it entered the new millennium, not counting the \$41 million bank in Howard Lake, which it kept as a separate subsidiary.

Second-gen movers

The Forstrom brothers — Philip (68), Paul (who died in 2001 from glioblastoma), Perry (61), and John (59), grew up in the bank. Their father, C.R. "Kelly" Forstrom, came into banking at age 26 when he bought a minority interest in Citizens Bank of Clara City in 1955 for \$5,000. Kelly Forstrom incrementally gained control of the bank, serving as its president until he decided to retire in 1990 at age 61. The two older brothers were in their thirties; the two younger brothers were still in their twenties when Forstrom Bancorporation became theirs to guide.

"My dad did absolutely every job at a bank and he loved it; he loved to work," Forstrom said. "But he had other things he wanted to do, and he wanted to trust this to his sons; it was up to us to make our difference."

Though he was relatively young when he stepped aside, Kelly Forstrom remained interested in how his sons were managing. "He liked growth, you know, if the circumstances were right," John Forstrom said. "And that was instilled in us ... if the circumstances were right."

Forstrom credits his older brothers, especially Chair Philip Forstrom, for bringing maturity and discipline to the enterprise.

"There were times we had to stand still too," Forstrom said.

But not for too long. Citizens acquired First State Bank of Lake Lillian, Minn. (2005), Yellow Medicine County Bank, with locations in Granite Falls and Echo (2007), and First State Bank of Murdock, Minn. (2013). In 2014, the bank found more growth by returning to Montana and picking up First Bank of Lincoln.

"We really pride ourselves on our small town roots," said Chad Forkrud, president. To customers in Montana, the fact that the bank was based in a small town in Minnesota didn't matter, and likely fed a certain intrigue. "I think we're opportunistic," said Forkrud, 50, who joined the bank out of college.

Funding all this growth involved loans from Bloomington, Minn.-based UBB, turning to the capital markets, as well as financing from their parents. "We've generally tried to retain as much capital as possible to do these deals," Forstrom admitted, "to reduce the leverage."

With growth comes other complications, as internal sprawl can quickly grow unwieldy. "We had the infrastructure of a \$250 million bank, except we were \$650 million," Forkrud admitted.

"When the bank was a lot smaller, the management team consisted of the local bank presidents, maybe the local executive vice president, my dad and later Philip, or Philip and Paul," Forstrom explained. "Growth created challenges that were more than the Forstrom brothers could get their arms around."

The same year the bank expanded in Montana for the second time, it hired John Gill as company president. Gill had been chief operations officer at Western Bank in St. Paul, Minn. "He was very strong in operations," Forstrom said. "He was instrumental in putting together — and I use this word benevolently — the bureaucracy of the bank, the structure of a senior management team that had a couple Forstroms on it, but it was growing and the team required more skills than the Forstroms could offer."

One of Gill's signature achievements was to adopt the Entrepreneurial Operating System, or EOS, a management style with accountability and common messaging. "That has given the brothers tremendous comfort as the organization expands over two states separated by 1,500 miles, so that everyone's on the same page," Forstrom said. "It's a work in progress."

So was continued growth. In 2017, the bank opened a loan production office in Great Falls, Mont., and hired Ryan Fritz to manage it. With a population in excess of 60,000 people, Great Falls represented market ambitions as yet unrealized for the decidedly rural bank. The people of Great Falls responded, setting the bank in motion toward opening a *de novo* branch in 2018, and eventually embarking on construction of an 18,000-square-foot bank building. "I don't know that



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- JOHN FORSTROM

it was ever a plan when I was hired," said Fritz, senior vice president and Montana market manager. "It kind of just organically happened and I was very thankful to the brothers to be able to say, 'Hey, this is the right thing to do.' Our customers are quite thankful as well."

With internal expansion in Clara City underway to house the operations, human resources, training and technology teams needed to support a bank of its size, the bank continued to grow externally. In 2019, it acquired the tiny Farmers & Merchants Bank of Sacred Heart, Minn., and the following year it opened a loan production office in Montevideo, Minn.

Once a bank crosses the billion dollar threshold, compliance costs skyrocket. Forkrud estimated the bank's annual compliance overhead sits at a quarter of a million dollars now. "That's going to make us no money," he said.

"So we're in this expensive zone now, and you've got to responsibly grow your way out of it because that quarter of a million dollars a year never goes away," Forstrom said.

It's not as if they don't know how to keep the growth momentum going. But their plans unexpectedly stalled as they focused their way past the shock of September 17, 2020 — the day Gill's southbound GMC Sierra met the front end of a northbound Ford pickup along a stretch of western Minnesota asphalt. The 56-year-old Gill died at the scene.

A shock but not a setback

An organization does what it has a history of doing. "We do not typically panic," said Forkrud. "We get in a room, we look at the situation. Obviously people were shocked. There was a sense of loss and mourning. But nobody panicked. We had conversations about what we needed to do from a business standpoint."

Forkrud credits the Forstroms, whom he calls "active owners" who "pull right up alongside you," for helping the management team navigate the sudden loss of Gill. And to Gill's credit, there was a solid management team in place, which allowed leadership to divide its task lists and prioritize. "We communicated, probably over-communicated," Forkrud recounted. "I thought it went as well as could have been expected given the curve ball we were thrown."

In the wake of this tragic loss, the bank stayed its course and kept its eyes open. "In the last two or three years, there have been a lot of opportunities," Forkrud said. Most weren't the right fit. But then there was one that was, and it just happened to be in Montana.

Late in 2022, the bank announced it was acquiring the three-location Granite Mountain Bank based in Philipsburg, Mont., the largest acquisition in its history. That buy, closed in June 2023, brings the bank to its current size, operating in 16 communities in two states. Still a rural bank. Still a community bank. Staffed by what Forkrud characterizes as "blue collar bankers," professionals uninterested in fanfare, people who show up for customers and let the rest take care of itself.

"We're not very good at self-promotion," Fritz said. "We prefer not to if we can. But we're very fortunate that we have some great customers out there who help promote us."

Humility is a core value at the bank, Forkrud explained. "It's a special culture, but harder to maintain as you grow because everyone else wants to impose a different rule or regulation or conformity that you have to fight through."

With roots, at all branches, serving rural communities, Minnesota and Montana values align, Fritz said. "You talk about numbers and profit, and we can say, yeah, we're adding opportunities for our communities because we can help them grow as we grow, but it's also great for our employees because we need to elevate people and develop the next leaders," Fritz added.

Scale allows for such things. "We acquire a new branch and all of a sudden it's created a bond between two people who have never met, and they become just great friends," Fritz said. "There is greater synergy within the organization; it allows us to work better together."

All of this is made possible by the Forstrom brothers working well together. "My brothers and I get along tremendously well," Forstrom said. "We think a lot alike, but not identically. Everybody holds it together and we work toward a common goal and we're having fun."

"We don't really have any desire to grow for the sake of growing, other than you need to be growing to remain relevant in this regulated industry." ♦

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