

PACB
Maximizing Mutuality Conference

“Stay Relevant in a Changing Industry”

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Agenda – State of the Industry – Staying Relevant

- Consolidation Trends in the Mutual Industry
- Branching Trends – Significant decline among largest banks.
- Digital Trends – This is not likely to change.
- Demographics

Present State Of Mutual Industry

- Approximately 390 mutual institutions including Holding Companies:
4,700 Banks in December 2022 – Mutual associations, 8% of banking industry.

Asset Size

- Greater than \$3 billion – 6%
- \$1B – \$3B+ – 11%
- \$500m to \$1B - 24%
- Less than \$500 million – 59%
- Less than \$100m – 16%
- As a group, mutual institutions are relatively small, but similar to distribution of all community banks
- **Median size is \$240 million – 59% of mutual associations are smaller than \$500m.**

Changes in the Mutual Structure

- **Stock Conversions** – Major source of decline in the mutual industry over last thirty years.
- **Mutuals Combining Under a Holding Company** – does not impact the number of mutuals.
- **Mutual Mergers** – Two mutuals merging under one charter. This reduces industry numbers.

New England has been the leader in Mutual Combination and mutual mergers. We have seen fewer in Pennsylvania, but some good examples.

Combining under a Mutual Holding Company

A popular strategy in the last two decades.

- Form a mutual holding company.
- Retain your individual charters but combine under a common holding company.

Advantages:

- Retain your name and branding.
- Little impact on Board members – each bank retains its board members. And then each appoints 3 or 4 to be on the MHC board.
- Minimal impact on senior management and staff.
- Some marginal gains in efficiency and economies of scale.

Combining under a Mutual Holding Company

Disadvantages:

- ❑ **Why are you going through this process?** To increase scale or asset size and gain some economies of scale. To achieve some cost synergism – to reduce the overall operating expenses.
- ❑ But if you study this model there is little cost synergism – you now have 2 CEO, 2 CFO all the way through senior management.
- ❑ There are some potential savings – sharing some accounting functions or marketing or human resource functions.
- ❑ But there is little evidence that the process is worth the effort. There is too much duplication, especially in management and staff.

Mutual Mergers

Many good examples in New England and a few in Pennsylvania.

- ❑ Combining into one charter, therefore, one regulator, one auditor, etc..
- ❑ Also, one CEO, one CFO: possibly some retail office closures if there is overlap of markets.
- ❑ If you are willing to make the decisions on personnel, you will achieve cost synergism and benefit from the change in scale.

Mutual Mergers - Disadvantages

- ❑ **Branding** – Often you need to dissolve both banks' names as they are tied to a community name. Therefore, you need to rebrand the institution which can be expensive and often takes considerable time.
- ❑ **Boards** – One bank has 9 board member the other has 8 board members – I don't want a bank with 17 board members. This can be a major challenge that should be addressed upfront, so you don't waste time on the project.
- ❑ **Management** – How do you handle the duplication of senior management positions? This is probably the most difficult decision, but the most important in achieving cost synergism.
- ❑ **Staff** – Very likely we need to eliminate staff – another delicate decision – these are often local people so there is potential for negative goodwill in the communities.

Look at Some Out of State Examples

- **CMHC → Connecticut Mutual Holding Company** – 2001 two banks combined under an MHC. In 2007 added a third bank. Finally merged the three banks to one charter in 2021.
- **NHMHC → New Hampshire Mutual Holding Company** – Two banks formed an MHC in 2013 and add a third bank in 2017. Continues to operate under a three- bank holding company.
- **Bluestone Bank →** In 2021 Bridgewater Savings Bank & Mansfield Cooperative combined under into one charter to create Bluestone Bank.

Thinking about a combination or merger!

- Make sure your values align with the other institution, especially the critical values.**
- Best combinations or mergers are contiguous markets not long distance especially with smaller institutions.**
- CEOs usually make initial contacts but move to the Board level relatively quickly.**
- Deal with the tough issues early in the process, don't wait until the end.**

Retail Office Trends – Branch Closures

- ❑ **Largest Bank, both national and regional banks are closing offices.**
Generally, in smaller communities and in areas where demographics are relatively weak, especially population growth.
- ❑ **Fewer community banks, including mutuals are closing retail offices.**

Opportunities: What Bank of America considers a viable office, may be perceived differently by the local mutual savings bank.

Look at the closures in the Northeast on slide 12.

Retail Branching – Closures by Large Banks – 2020 - 2022

Key Bank	99	Their system is in the Northeast.
Citizens Bank	102	This is in the northeast.
TD	80	East coast – Maine to Florida
M&T	40	M&T has come to NE – Acquired Peoples United.
Citi	50	Northeast
Wells Fargo	560	National closures – small towns.
Bank of America	110	Small towns across the country
Chase	120	Note that Chase has come to Philly Metro

Opportunities: Consolidation

Across the country we are seeing bank mergers and acquisitions.

We have experience this across Pennsylvania and it will likely continue.

2016 - 2017 → Truist acquisitions in Pennsylvania.

2021 → Bryn Mawr Trust in the Philly Metro.

Opportunities for community banks:

- Attracting customers from your neighborhood merged bank.
- Hiring talent after your neighborhood bank is acquired.
- As mutuals we need to react quickly.

Digital Trends

- ❑ **ATMs to ITMs**
- ❑ **On-Line Account Opening – Covid increased this initiative, and it continues to grow in community banking.**
- ❑ **On-Line Loan Origination**
 - ➔ **Residential Mortgage Lending – More and more business is going on-line - Quicken Effect! Less so in community banking!**
 - ➔ **Be careful commercial lenders – Fin Techs are moving on-line with small business loans and consumer loans.**
- ❑ **Person to Person Payments ➔ Watch the potential moves by Zelle. And introduction of Fed Now.**

Primary Method of Bank Access

Method	2017	2019	2021
Mobile	17%	37%	45%
Online	38%	21%	20%
ATM/Kiosk	20%	18%	16%
Bank Teller	22%	21%	17%
Other	3%	3%	2%
WSJ 3/30/22	Where is your BANK?		

Demographics Trends Impacting Banking

Pennsylvania has a mix of urban areas, suburbia, small towns and rural. Philadelphia/Pittsburgh metros are dynamic. BUT,

- ❑ In rural areas, and small towns, population is aging unless the area is attracting ethnics.
- ❑ Metro areas are more dynamic with younger average age. Metro areas are attracting millennials. **And consider the Radar O'Reilly factor!**
- ❑ Large banks [Chase/Bank of America] are attracting younger customers. Big regionals [Key, TD & Citizens] are getting their share of millennials and Gen Z.
- ❑ Generally, mutuals are doing an average job; although some are doing very well.
- **The key question in planning: How are we engaging millennials? Gen Z?**

Demographics: Age Distribution over time.

2006

Millennials (+Y): 14 to 28 years [most were not customers]

Gen X: 29 to 41 years

Baby Boomers: 42 to 60 years [nobody was retirement age]

Senior: 61+ [our best legacy customers]

2023

Z Gen: born after 1996 – 26 and younger; becoming an important bank customer

Millennials (+Y): 27 to 44 years [rapidly becoming our loan customers]

Gen X: 45 to 58 years

Baby Boomers: 59 to 77 years [Retired or rapidly retiring]

Senior: 78+ [our legacy customer are declining]

This is having a significant impact on community banking.

Changing customer behavior over time.

2006:

- ❑ Branch activity was declining but remained an important channel for many customers.
- ❑ On-line banking was beginning to approach an inflection point [probably 2010-2012]
- ❑ Few banks had a virtual branch

2023: Welcome to a new world!

- ❑ Digital Banking is surpassing traditional channels, and this is going to continue.
- ❑ Mobile banking growth is at an inflection point in community banking. Pandemic pushed this trend.
- ❑ Customers are very tech savvy [Gen Z, Millennials, Gen X and Baby boomers, but even senior citizens are more aware]
- ❑ Internet banks are leading competition – Ally, Symphony and others.
- ❑ Many banks have a e-branch or virtual branch, **and this has increased with on-line account opening and will continue.**

Challenges for our Industry in 2023 & 2024

- Liquidity in 2023 – it is getting tighter as deposits flow out.**
- Making commercial loans and increasing the loan to asset ratio is important for many banks post Covid.**
- Managing rising deposit costs - this will continue at least through 3rd quarter.**
- Attracting Gen Z and younger Millennials.**
- Paying attention to digital delivery trends.**
- Reacting to M&A and taking advantage of opportunities.**
- Managing hiring and retention – our newest challenge.**