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Mutuals Get A Taste for C&I Lending

Mutuals See Potential in Commercial Loans

■ BY JOHN REOSTI

After almost 10 years as a lender to small businesses, Salem Five Cents Savings Bank in Massachusetts is moving upstream.

The \$1.8 billion-asset mutual thrift has embarked on a campaign to make \$400 million of commercial and industrial and commercial real estate loans by 2010. It has begun soliciting business from companies with \$10 million to \$100 million in sales.

That puts it at the forefront of a small but growing number of mutuals ramping up in commercial lending.

Though most mutuals remain largely residential lenders, some — particularly in the Northeast — consider business lending essential to increasing profits and maintaining their relevance.

The trend is “rejuvenating the whole segment,” said John Hall, Salem Five’s senior vice president of commercial banking. “How else can you perpetuate a mutual? On residential lending? It’s too cyclical, and the margins are too thin. Clearly you’ve got to diversify.”

For Salem Five, which has about \$350 million of commercial loans on its books, the strategy means seeking bigger customers. But for mutuals that have done little more than dabble in commercial lending, diversifying means hiring more commercial lenders and adding the types of deposit and technology products that busi-

nesses require from their primary banks.

Robert C. Seiwert, a former commercial banker, is the senior vice president of commercial banking at America’s Community Bankers, to which most of the country’s mutual savings banks belong. He said the commercial banking division fields more inquiries than any other at the Washington trade group.

“I was hired specifically because our members wanted to get into commercial lending,” Mr. Seiwert said. “It’s another source of revenue. The mortgage business is cyclical ... and it can be problematic when the sector turns south.”

Interest appears to be particularly strong in Massachusetts, where the ranks of commercial lenders have been thinned since the early 1990s, first by bank failures — notably that of the \$14 billion-asset Bank of New England — and then by consolidation.

Another recent entry among Massachusetts mutuals is the \$3 billion-asset Middlesex Savings Bank of Waltham, which opened its first commercial loan office in November.

Still, most of the mutuals that do commercial lending swim in the shallow end of the pool. In a poll last May of ACB members, three-fifths of the respondents said they did not lend to companies with sales of more than \$1 million. Only 5% report-

ed lending to companies with more than \$25 million of sales.

Mr. Seiwert said even fewer mutuals offer the kinds of deposit and cash management products that small and midsize businesses require from their primary banker, such as lockboxes, overnight sweep accounts, and payroll processing.

“Where you make your money is by becoming the bank of account,” Mr. Seiwert said. “If you go in just on the loan side, all you get a set of transactions that can go away as quickly as they came.”

Kim Meader, Salem Five’s executive vice president of business lines, said it “invested in the deposit products and technology that companies want” a decade ago. Now it plans to use that infrastructure to sell to larger businesses.

Mr. Meader said most midsize businesses still do not have corporate treasurers or extensive financial departments. “They look to their bank for help in those areas,” he said. “What these businesses want is access to a decision maker. They want to be able to pick up the phone and get fast access to people.”

Joseph M. Gibbons, Salem Five’s president and chief executive officer, said the potential in commercial lending is so big because most of the banking companies that once dominated the market, such as Shawmut National Corp., Bank of Boston

Corp., Fleet Financial Corp., and BayBanks Inc., have been acquired. The severe recession of the early 1990s also narrowed the field. Regulators closed 30 Massachusetts banks in 1991 and 1992.

Mr. Gibbons said the out-of-state money center banks that now dominate the Massachusetts banking market are going after bigger and bigger customers. "That's left a void among the small and middle-market companies that want to be able to get a hold of a decision maker," he said.

After 15 years of upheaval in the state's banking market, being a mutual is actually an advantage, Mr. Gibbons said. Because stock companies cannot acquire them, mutuals have a stability that local business-people appreciate, he said.

Thomas Thompson is the president of Tannin Corp. of Peabody, Mass., which produces chemicals used in tanning leather and has sales in excess of \$30 million a year. He was initially reluctant to do business Salem Five because it was a mutual, he said, but he became fed up with the constant turnover of loan officers at bigger commercial banks.

"They were less and less in tune with our needs," Mr. Thompson said. "The service had become quite impersonal. Salem Five has worked very closely with us, and they know and understand our business."

Hutchinson Medical Inc. of Salem, which distributes wheelchairs and other medical supplies, switched to Salem Five for the same reason, said Thomas L. McAuliffe, its president. "We're a complicated business, so stability is important to us," he said. "We don't want to be reeducating loan officers and vice presidents every year."

Mr. Gibbons said Salem Five did no

commercial lending when he started there in 1979. It began making commercial and industrial loans on a small scale in the early 1980s and really started to beef up in the mid-1990s.

He said he viewed the credit crunch that



Believers: Gibbons says competition stability. Hall says home lending is too

resulted from the bank failures and consolidation as an opportunity. In 1996 he tapped Mr. Hall, a veteran commercial lender who had spent 28 years at Shawmut National Corp., to build Salem Five's commercial business. (Fleet bought Shawmut in late 1995; Bank of America bought Fleet a year ago.)

Under Mr. Hall's leadership, Salem Five's holdings of commercial and industrial and commercial real estate loans have grown nearly 800%; the \$350 million it held at yearend were nearly 20% of its assets

It hired Mr. Meader last May to lead the push for bigger corporate clients. He was the chief executive at Royal Bank of Scotland Group PLC's Citizens Bank New Hampshire,

Mr. Hall said Salem Five was encouraged to move into middle-market commercial business by calls and interest it began receiving from larger businesses. "We recognized that we could do this, that we were being received in the marketplace," he said.



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In going after the middle market it is following another Massachusetts mutual, Eastern Bank in Lynn, which seven years ago hired another Shawmut alumnus, Bob Griffin, to build its commercial line.

Echoing Mr. Gibbons, Mr. Griffin said that Eastern, which has \$5.1 billion of assets, expanded its business banking unit after the traditional commercial banks restricted their lending in the early 1990s. "A lot of banks stopped calling on small businesses, so we were able to build our commercial and industrial book," he said.

Today, Eastern has almost \$600 million of commercial and industrial loans on its books. It serves companies with revenue of up to \$100 million, but its "sweet spot" is those with \$5 million to \$50 million, Mr. Griffin said. ■

