





Star-Studded Mutuals

By Josh Shusko



After sitting through an extended awards season, which included the Golden Globes, Grammys, and Oscars, *Community Banker* wanted to get in on the fun by rolling out the red carpet for some “star-studded mutuals.” We wanted to profile mutual institutions that represent different milestones in the industry—the oldest, the newest, the biggest.


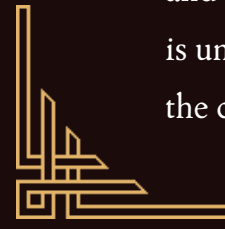
Born from a history of neighbors pooling resources to create small banks to benefit their communities, mutual institutions have always had close connections to their customers and are at the heart of the vibrant community-banking sector of the financial services industry.

Mutual banks date back to 1816. The first, The Provident Institution for Savings, in Boston, was modeled after similar institutions in England and Scotland. Its founders dedicated the institution to providing a “means of contributing to the welfare of the working classes.”

Mutual refers to a bank’s corporate structure. While the majority of commercial banks are either publicly or privately traded, most savings institutions were chartered in mutual form. Over the years, many savings institutions have converted to stock form, but there are still nearly 800 mutuals.

Contemporary mutual institutions can take many forms. They can be federally or state chartered. They can have assets of less than \$10 million or more than \$5 billion. They can be a mutual holding company. Their primary federal regulator can be the Federal Deposit Insurance Corp. or the Office of Thrift Supervision.

The industry is alight with shining examples of mutuals well worth profiling, and the following three represent only a sliver of this vibrant sector. While each is unique in its own way, they all share a commitment to the mutual charter and the community responsibility that the mutual designation entails.



*Rich in History,
Focused on Customers*
**Oldest Mutual Savings Bank:
BankNewport in Newport, R.I.**

BankNewport in Newport, R.I., is the oldest mutual savings bank in the country. It was chartered in 1819, just three years after the first mutual banks appeared in Philadelphia and Boston. Originally named the Savings Bank of Newport, its first office was located in the home of one of its directors.

The institution has been a fixture in the community for more than 185 years. President and Chief Executive Officer Thomas W. Kelly attributes BankNewport's success in the Newport area to tremendous customer loyalty and a very detailed focus on customer service.

"An organized approach to selling systems and sales training" has enabled the bank to continue to increase asset size and market share, even in the face of competition from national banks, Kelly said. The bank has 10 branches, several of which have opened in the past 10 years. It has seen its asset size nearly triple from \$355 million in 1992 to almost \$946 million today.

Primarily a home mortgage lender, BankNewport offers a full line of products for its retail and business customers. It also owns subsidiaries that provide financial planning, insurance programs, and other products. BankNewport recently acquired a third insurance agency, and is in the process of acquiring a fourth.

Many people have come to expect the high level of personalized customer service that BankNewport provides, Kelly said. This has led to an extremely high customer retention rate and has helped the bank attract new depositors, he said. The remarkable customer service is no accident. BankNewport has a very detailed training program for its employees.

Along with customer service, community involvement has helped the bank thrive over the years. BankNewport annually

donates at least 10 percent of its net income to the community. Last year, the bank donated approximately \$900,000.

The bank's employees also are very visible and active in volunteering and serving their community. In terms of community relations, having staff involved is even more important than monetary donations, Kelly said.

"Our customers are impressed when they see our employees volunteering out in the community," he said.

While maintaining its mutual roots, BankNewport continues to evolve. This year, the bank plans to form a mutual holding company to expand the bank's flexibility to raise capital. While this move will change BankNewport's structure, Kelly said that the bank is committed to remaining independent and will stay a mutual, continuing the tradition established by its founders nearly two centuries ago.

*To Better Serve
Its Customers, a
Mutual Conversion*
**Newest Mutual:
Share Plus Federal Bank in
Plano, Texas**

After serving the community for 50 years as a credit union, Share Plus Federal Savings Bank converted to a mutual charter in October 2004, becoming the country's newest mutual institution.

Share Plus was originally organized in August 1958 in Plano, Texas, as Frito Employees Federal Credit Union. As the

Frito-Lay company grew and merged with Pepsi to form PepsiCo Inc., the credit union's field of membership expanded. In 1993, with more than 20,000 members, it changed its name to Share Plus Federal Credit Union and, in 1998, it reached \$100 million in assets.

Share Plus decided a mutual charter was the best way to serve its customers and expand its business options. The conversion allowed Share Plus to open its doors to the public and provided more opportunity for growth.

The process required two years of discussion and planning, and the conversion was "staged strategically," said D. Craig Barnes, the bank's president and CEO. First, the former credit union approached the various companies it served, including KFC, Kohl's, and Taco Bell, about the possible conversion. It began the process of converting after it received a positive response from these companies.

Members were individually notified in writing of the proposed change. The former credit union also ran newspaper ads and convened a meeting of the membership to have "a question and answer period as to why we were doing this and what it would look like to them," Barnes said.

Share Plus took a proactive approach to ward off any member anxiety by stressing that the conversion would be "seamless" for the customers, and by highlighting the ways that it would be better able to serve the community as a mutual. It also opened a hotline to field member questions about the conversion.

"It was no easy task," Barnes said. "But, by very strategically going through the notification process, we set the stage well" for the vote in favor of conversion, he added. On July 23, 2004, 80 percent of the members who voted approved the charter change.

To let local citizens know about the

change, Share Plus has employed a targeted marketing strategy of identifying and marketing to specific consumers in the community. It also has launched a wider strategy with billboards, print ads, and radio spots. In the coming year, the mutual hopes to increase its depositors and expand its product offerings.

Overall, 25 credit unions have converted to the mutual institution charter, but many industry insiders say the National Credit Union Administration's recent actions to increase disclosure regulations will make it more difficult for future conversions to take place.

"The NCUA needs to open their eyes rather than putting restrictions up," Barnes said. "The NCUA needs to understand that even though credit unions exist for a captive membership, they are a business. The NCUA putting different restrictions on credit unions prohibits service to the members and the survival of that institution."

*Progressive
Strategies, Traditional
Service*
**Largest Mutual:
Dollar Bank in Pittsburgh**

Being on the cutting edge of innovation has helped one of the nation's oldest mutuals to be the one of the most profitable as well. With \$5.2 billion in assets, federally chartered Dollar Bank, FSB, in Pittsburgh, is the country's largest mutual institution that is not in a mutual holding company structure. The bank, which was founded in 1855 and currently has more than 1,100 employees, is also one of the largest regional banks in the western Pennsylvania area.

Dollar Bank was the first mutual savings bank west of the Alleghenies, a western section of the Appalachian Mountains that extends from northern Pennsylvania to southwestern Virginia. As a result of an acquisition in 1984, the bank also has offices in the Cleveland area.



"As the oldest bank in the southwestern Pennsylvania region, we try to maintain a deep understanding of the needs of this region's people and their values," said Stephen C. Hansen, the bank's president and CEO. The bank is committed to maintaining its independent and mutual status, he added. "We will not exchange the needs of our local account holders for the interests of distant shareholders."

Besides featuring a full suite of mortgages and other loans, including a large commercial lending program, Dollar Bank tries to stay a step ahead of its competition by offering innovative products and services. Being on the cutting edge of technology is nothing new for Dollar; it was the first bank in the region to offer telephone banking in the 1970s. It was also the first in the Pittsburgh area to offer interest on checking accounts.

More recently, it was chosen as one of the top banks in cyberspace by The Money Page, an Internet consumer guide to banking. "Online banking has been a very explosive and successful service for our bank. We used our years of experience with our customer service center to design our online banking service to complement, not replace, our personal approach to customer service," Hansen said. Dollar also was the first bank in the nation to offer savings bonds via the Internet.

The bank has also earned its place in history. In 1998, online banking at Dollar Bank was selected for inclusion in the Smithsonian Institution's permanent research collection as part of the Computerworld Smithsonian Innovation Collection.

Active in serving the community, Dollar Bank created the credit enhancement program, an award-winning free credit-counseling and homebuyer-education service for low- and moderate-income potential borrowers. Through this program, many people who were denied mortgages at other lenders are now homeowners.

"Because of our credit enhancement program, we don't have to say 'no.' We can say, 'not yet,'" Hansen said.

Dollar Bank has also played a key role in the economic development in the region. It has helped restore and rebuild a steel mill in Pittsburgh, and has also fostered development of high-tech industries. In Cleveland, Dollar has helped restore and build up inner city neighborhoods.

The bank has high expectations for the coming year. Hansen cited Dollar's strong capital position and its recent increase in corporate and small business lending.

"It appears that business owners are moving forward with capital initiatives needed to improve or expand their services, so we are hopeful about this positive change in the business environment," he said.

"We believe that celebrating 150 years of independence and innovation speaks volumes to the wisdom of our approach and to the strength of our commitment to the future," Hansen said. "We have chosen to characterize this milestone as '150 Years Young.'" **B**

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