

No Longer Going It Alone?

# Holding Co. Alliances Get New Look

## Rising Expenses Raise Partnership Questions

By Laura Schreier    Commercial Record Staff Writer    09/03/09

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Running a small mutual bank is getting costlier by the year - and with compliance and technology expenses rising, competition heated and margins narrowing, once-unlikely coping strategies are getting a second look.

In particular: teaming up with other mutual banks to combine holding companies and share back office expenses.

The idea has been around for years – longer, for commercial banks – but banking consultants say they’re hearing more buzz these days from executives interested in dusting the idea off.

“It is a very, very common conversation at the CEO level,” said Thomas W. Grottke, president of Connecticut-based consultancy Northeastern Banking Services Group. Most executives he meets with discuss major changes to their banks as a survival strategy – either through mergers, acquisitions, or mutual holding company alliances.

Bankers themselves aren’t eager to state that interest publicly. But privately, he said, they realize continued pressures are making it tough to continue on alone.

In a mutual holding company of this type, two or more banks’ management teams arrange to form a parent company. The banks can then share certain costs, such as human resources departments or high-tech operations including online banking.

But, “It begs the question: Who’s really going to be in charge?” said Stephen J. Coukos, a partner with Chu, Ring & Hazel in Boston.

### **Who Is Running The Ship?**

The involved banks maintain their names and their own boards of directors, but they’ve become sibling institutions – there’s an umbrella company at the top that controls both of them, and the tough part is figuring out who controls that company. It’s a question of who really calls the shots, Coukos said.

That was a question that Litchfield Bancorp and Northwest Community Bank in Winsted tackled when they formed a holding company alliance in 2001. Today, the two banks share human resources, technology, accounting and other functions in the Connecticut Mutual Holding Co., but made sure to get the “social issues” worked out before they jumped into their partnership, says Mark Macomber, CEO for both the holding company and Litchfield Bancorp.

“Lots of people go through the dance and do the due diligence, and then find out their CEOs hate each other,” he said.

The company intends to add another member to its ranks, also: nearby Collinsville Savings Society is on board to join up, as soon as the trio gets approval from regulators.

Connecticut Mutual Holding Co. is one of the only examples of this kind of partnership in the region. Macomber says so far he’s gotten questions from other bankers who are merely curious about how the company’s partnership has worked.

But it’s hard to imagine that more won’t be seriously considering entering such a partnership, he says, particularly as costs continue to rise.

“How some of these little banks can afford the overhead of even the regulatory environment is difficult for me to understand,” he said.

Another benefit is the banks’ combined powers give them more leverage with vendors – “We’re a more attractive customer together than either of us would be individually.”

In addition, the partnership means the collective duo has more money to work with. Certain loans which would have been too rich for one of them are now possible..

As to fears that each bank loses its independence, Macomber acknowledged it was true, to a certain extent: each entity has to consider how its other partner will be affected. And while the relationship between the banks has been pretty smooth, it hasn’t been entirely “Kumbaya moments” all around.

Still, many bankers are skeptical: Massachusetts' Pilgrim Bank, a small mutual that recently applied to form a solo mutual holding company, says it would prefer to steer clear of joining another bank's holding company.

Pro-partnership banks and consultants say holding companies allow individual members to stay independent, but Pilgrim CEO Francis Campbell says independence is precisely the thing that gets lost.

It may be the same name on the front of the building, he said, but that company is no longer its own. A holding company could decide to just go ahead and merge the sibling banks, and the bank can't stop it, he said.

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