How thrift and mutual banks are benefiting their customers

Thrift banks, otherwise known as savings and loans, focus on turning deposits into consumer mortgage loans. Some thrifts are owned and operated by mutual banks, but not necessarily vice versa. We take a deep dive into what lies at the heart of these community banks' business models and how this benefits their customer relationships.

By Kelly Pike

Ask John Coyne III the difference between a mutual thrift and other community banks, and he'll tell you it's more than just a charter. It's an advantage.

As chairman, president and CEO of Big Horn Federal Savings Bank, a $352 million-asset mutually owned savings bank in Greybull, Wyo., Coyne helms an institution that is not only an expert mortgage lender, as would be expected from a thrift. It also pours its profits back into the bank for the benefit of its customers.

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> —John Coyne III, Big Horn Federal Savings Bank

That means Big Horn Federal Savings Bank pays higher-than-market rates for deposits while keeping overdraft and loan fees steady for years. It chooses to bank only those in its community and keeps connected to mortgage borrowers by retaining servicing after selling loans to the secondary market.

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Thrifts and mutuals: What's the difference?

Thrifts
Thrifts are financial institutions, including savings and loans and savings banks, that are focused primarily on residential real estate lending. They are chartered either by the OCC or a state and must pass the qualified thrift lender (QTL) test by having at least 65% of their portfolio in housing-related assets and other limited investments (the types of investments open to thrifts has expanded significantly over time). There are more than 600 thrifts in the U.S.

Mutuals

Mutuals are banks owned by depositors, not stockholders. They can be thrifts, banks, cooperative banks or mutual holding companies chartered at the state or federal level. Some mutual banks are thrifts, but not all. There are about 490 mutual banks in the U.S.

Where did thrifts come from?

When national banks were first created, they weren't allowed to make home mortgage loans. Left with few options, Americans crowdsourced a solution: the mutual thrift.

It began in 1831 when residents of a small Pennsylvania town pooled their money to form a cooperative to fund home loans. This inspired the creation of other savings and loans, savings banks and building associations. The Office of the Comptroller of the Currency (OCC) estimates that there were about 6,000 of these cooperative (in other words, mutual) institutions by 1893, cementing what would become a long-standing tradition of mutual thrifts.

The Great Depression decimated the banking industry, wiping out many savings banks, but some survived and adopted federal thrift charters, which were created in 1933 as part of the Home Owners' Loan Act. The goal of these thrifts was to provide low-cost, long-term residential mortgages. Big Horn Federal Savings Bank, for example, was formed in 1937, when six local business owners each contributed $1,000 to start a savings and loan association.

Thrifts underwent another major change in the 1970s and 1980s. Inflation rose dramatically and financial markets were deregulated, providing new opportunities—and risks. Some thrifts, like Big Horn, used the opportunity to convert to savings banks, allowing them to expand beyond savings accounts, CDs and traditional mortgages to offer NOW accounts and demand deposit accounts and diversify their lending approaches. Others engaged in riskier banking activities, factors that contributed to the savings and loan (S&L) crisis. Between 1986 and 1995, 1,043 thrifts totaling $519 billion in assets closed, according to the FDIC.

Congress responded by passing the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), which created the Office of Thrift Supervision (OTS). This inspired a flurry of thrift creation, with 93 new charters between 1998 and 2000. Change came again when the Office of Thrift Supervision (OTS) was merged into the Office of the Comptroller of the Currency in 2011 as part of the Dodd-Frank Act.

Today, thrifts offer a wide range of banking services in addition to traditional residential mortgage lending.

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> —Kevin Goffe, president and CEO, Dean Bank

Mutual cooperation

While many thrifts are mutuals, not all mutuals are thrifts. Dean Bank in Franklin, Mass., has operated as a state-chartered mutual cooperative bank since its founding in 1889. At Dean Bank, depositors have voting rights to elect the board of directors, with each depositor having an equal vote, whether their account holds $1 or $1 million—an intentional decision.

“Our path was always that we serve everybody,” says Kevin Goffe, president and CEO of the $425 million-asset bank and chairman of ICBA’s Mutual Bank Council. “Our average balance per account is much lower than our competitors’, because it doesn’t matter if you’re a small or large account holder. We’re not going to price our products or deliver our services based on the financial wealth of a customer.”

When Dean Bank was formed more than 130 years ago, the average citizen in rural areas didn’t have access to financial services, Goffe notes. Original members joined the bank on a subscription basis, contributing $1 a week until they’d paid $100 into the bank and were eligible to borrow money.

How do mutuals generate capital?

Generating capital is a challenge for mutual banks like Dean Bank. The only way to grow capital is to operate profitably, but like a lot of smaller community banks, Dean Bank doesn’t have many revenue channels. While the bank is not a thrift, its bread and butter is residential lending. It also offers financial advisory services, but that’s more of a customer benefit than a moneymaker.

“We weren’t sure it would be worthwhile, but we took the long view,” says Goffe of the bank’s decision to begin offering advisory services more than a decade ago. “A more stock-oriented bank needs to show new investments providing return for shareholders right away.”

One of Dean Bank’s challenges is helping customers understand what a cooperative bank is and why it matters. While the bank’s legal name is Dean Cooperative Bank, it’s gone by Dean Bank for the past 25 years because the average person has no idea what a cooperative bank is, Goffe says.

Coyne agrees. “Despite advertising and communication, we still have customers rooted in the early mentalities of what we do and don’t do,” he says. “In our case, it tends to be more on the commercial lending side. I think that’s an aspect of the work the thrift industry still has to do.”

Creating community and stability

Not all thrifts are mutually owned. Abacus Federal Savings Bank is a privately owned, $321 million-asset savings bank in New York City.

Abacus was founded in 1984, back when the Federal Home Loan Bank Board (FHLBB) regulated savings and loans. Abacus founder and chairman Thomas Sung formed the bank with other Chinese American business leaders in New York City to serve Chinese immigrants and other local residents. They received a warm welcome from the FHLBB, which encouraged the group and offered to help them charter a savings and loan, says Jill Sung, current CEO and president and Thomas Sung’s daughter.

“Our community is more conservative and wants to feel safe,” Jill Sung says. “They want to feel like their money is carefully watched and that they can get a loan when they need a loan.”

Read more about Jill Sung » (https://independentbanker.org/2022/04/how-these-asian-...heir-communities/)

The future of thrifts and mutuals

Thrifts and mutuals are a vibrant but endangered species. In 2020, there were 627 thrifts holding about $1.3 trillion in assets, which is almost half as many as there were 10 years ago, according to the FDIC. Just two new thrifts were formed in the past 10 years. It’s a far cry from 1986—before the S&L crisis—when there were 3,728 thrifts.

Mutuals are in a similar situation. There are fewer than 450 mutuals (many of them also included in the count of thrifts), and no new mutuals have formed since the 1970s—at least not of the bank variety.

“There are lots of mutuals being formed, but they are the non-taxable version: credit unions,” Goffe says.

> “I think the leadership of thrifts these days are very conscious of how our traditional values have to fit and meet the challenges of the modern world.”
> —Jill Sung, Abacus Federal Savings Bank

“What’s the incentive today for a mutual bank’s formation?” asks Coyne, who works to protect the mutual charter as a member of the OCC’s Mutual Savings Association Advisory Committee. “Are you going to put your hard-earned money into a bank and never have ownership in it or receive a dividend or distribution? People don’t have the mentality that existed back in 1935 that we should put our money in so our community can get better.”

But that may be changing. Organizers in New Hampshire have applied for a charter for Walden Mutual Bank, a mutual bank that would lend to and support sustainable, environmentally friendly food and agriculture initiatives in New England and New York. If approved, it could be the first in a new generation of mutual banks that define community not just by geography but by a shared sense of purpose and passion.

Tapping into ideals like community and accessibility may also help existing mutual banks remain independent. Attracting talent is never easy, and mutuals don’t have the luxury of incentivizing employees with shares of stock. Instead, they need to show the community and potential candidates that a career at the bank is more than a job; it’s a calling.

“Every community banker wants to make a difference, but [a mutual] charter allows for that more than anything I experienced in my stock bank years—and I was at a fantastic stock bank,” says Coyne. “This is a pretty phenomenal opportunity to make a difference.”

Sung is just as optimistic about the future of Abacus Federal and its thrift charter. As the thrift charter has evolved, the bank has been able to grow with its customers. In the past, it offered life insurance and annuities through its insurance subsidiary, and used its contacts in Chinese trade to help serve individuals and businesses operating in China. Today, the bank’s focus is serving its local community in New York City.

“We are old-fashioned,” Sung says, “but I think the leadership of thrifts these days are very conscious of how our traditional values have to fit and meet the challenges of the modern world. We recognize we have to modernize, but we’re not willing to give up our roots for that.”

Taking the long view

What’s it like to be a community bank that doesn’t have to answer to shareholders? For Big Horn Federal Savings Bank in Greybull, Wyo., it means worrying less about the quarter or the year and focusing more on the long term.

The mutual thrift can comfortably bank municipalities, essentially overpaying for deposits because the spread isn’t there. This is because it benefits the community and because the bank believes the economic environment will someday be different, and the deposits will be profitable.

“As a mutual, we get to take on that type of account because we don’t have to worry about it making money for us today,” says John Coyne III, chairman, president and CEO, whose balance sheet has a 35% loan-to-deposit ratio.

The same is true for technology investments. In 2010, Big Horn underwent a massive core conversion so the bank could have cutting-edge banking and digital platforms, including remote deposit capture—a rarity for what was a $150 million-asset bank at the time.

“We were looking at what we needed to do for our future and didn’t get confused by the returns of the day,” says Coyne. “From a stock bank perspective, it wouldn’t immediately create returns and would take a lot of human capital. It would have made the project extraordinarily difficult.”

Putting customer-owners first

Before finding his place as president and CEO of $152 million-asset Spratt Savings Bank in Chester, S.C., Jim Bennett spent a number of years at a large regional bank. His decision to move to Spratt, a mutual, was initially driven by being able to come back to a true community bank.

“The appeal was magnified when I talked to the board, and it became apparent that they were interested in service to the customers, not returns on their ownership stake, because there is no stock,” Bennett says.

Since that time, he has seen the effects of that philosophy in action. “Our customers seem very pleased when we explain that they are our owners,” he says. “As a result, our desire to ‘put them first’ is sincere.”

Bennett also appreciates that the community bank is not worried about directives and edicts from a corporate office in another town or state, which gives it more control over its operations.

Bennett believes the future is bright for Spratt Savings Bank. “Since we are a mutual, our customers are our owners,” he says. “This allows us to not worry about ROIs or ROEs. Instead, we focus on the returns that we can give to our true owners: our customers.” —*William Atkinson*

Advocating for thrifts and mutuals

ICBA is a longtime defender of community bank charter choice and continues to fight to preserve and promote federal thrift charters and mutual institutions, because they benefit communities.

ICBA successfully lobbied for the “covered savings association” charter created as part of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018. The charter allows thrifts to exercise the full range of national bank powers without the time and expense of converting to a national bank charter.

On the mutual front, ICBA is an advocate for an OCC charter for mutual national banks and opposes any legislative or regulatory action to pressure mutual institutions to convert to stock form or to eliminate the option of mutuality. Mutual institutions should have the right to defend themselves from activist depositor groups to preserve their mutuality.

Additionally, ICBA recognizes that credit unions operate like underregulated, tax-exempt mutual banks. It encourages credit unions seeking bank-like powers to convert to bank or thrift charters and believes that credit unions have the right to convert without excessive regulatory hurdles.

Keep up to date with ICBA's advocacy in this area » (http://icba.org/advocacy)

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