



Mutual Alert

Populism On The Rise in Massachusetts? Depositors Fail to Approve Stock Conversion

In what may have been influenced by the nationally reported battle for the control of Massachusetts supermarket chain “Market Basket “the Beverly Bank, a subsidiary of, Beverly Financial MHC, a Mass chartered cooperative bank that had reorganized in a MHC form, failed to obtain the necessary vote of two thirds of its depositors to move forward with its stock conversion. Market Basket has received national attention after its employees and customers sided with its fired CEO, Arthur T Demoulas, demanding that the Board of Directors reinstate Arthur T as CEO. There is still an ongoing customer boycott and union job action. There seems to be much more to that story and Arthur T may not be the Robin Hood the local media has portrayed him as(for more on this see the Wall ST J). Nonetheless, the daily publicity has heightened public sensitivity to the value of companies that identify with their employees and customers. In the case of Beverly bank there have been a number of news stories(see attachments) comparing the depositor opposition to the market basket story. Depositors are quoted as wanting to preserve their community bank and prevent what they view as its inevitable sale if it converts to stock.

This may be a cautionary tale for Boards of Directors who may not have a “Plan B”. Moreover, there are concerns as to who will be stuck with the legal and underwriters fees. However, the facts here are distinguishable from most conversions. First, even though the MHC formation was touted by a number of law firms as a method to eliminate cooperative bank depositor voting in Mass, it appears that either the FDIC or/and the State still required a vote for conversion of depositors and corporators. This was compounded in that the vote required was 2/3 of depositors not of the total votes that is normally the case for Federals and most S&Ls. The killer was that proxy voting was not allowed and only approximately 450 depositors out of a reported total of 10,000 appeared. This is more typical for credit unions and as we have seen in the past it is not unprecedented to have these votes fail when solicited by credit unions. One wonders what their advisers were thinking and why they didn't convert to a Federal charter first, although the vote for charter change may have been the same.

The important lesson for mutual banks without conversion ambitions is that depositors seem to be even more willing to identify with mutual banks in this age of consolidation.