



One-branch wonders – knowing the market helps niche banks thrive

by Ben Mook

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In a time when customers can control their money 24 hours a day with online banking, mobile apps and ATMs, it's hard to imagine a bank could survive without a website, debit cards or more than a single location.

But a handful of one-branch banks that serve niche markets have been able to weather the Great Recession and other pitfalls over the years.

Banks like 131-year-old Fairmount Bank, 114-year-old Glen Burnie Mutual Savings Bank and the 126-year-old Midstate Federal Savings and Loan Association have been able to thrive by keeping overhead low, maintaining conservative underwriting and providing a level of customer service that has kept people coming back despite what the big banks have to offer.

"There are a lot of advantages to having a niche, and if a bank gets too big it can get out of hand," Midstate Chairwoman and former president Kathryn H. Gerling said. "If you're making money being small, why would you want to be big?"

According to a recently released study by research firm Markets and Markets, there are more than 6,000 community banks in the U.S., with more than 50,000 branch locations. And, while community banks have seen their share of total deposits drop to 12.4 percent in 2009 from 33 percent in 1992, the company predicts the trend will reverse.

"The economic recession proved to be a boon for the community banks, as consumers lost faith in large financial institutions and, with the failure of the 'too big to fail' theory, are moving their deposits back to community banks," the study said.

Bert Ely, a Virginia-based banking consultant, said there is something to be said for a single-office bank.

"It's like a small deli or restaurant, where the management is closely involved in the day-to-day operations," he said.

The number of one-branch neighborhood banks in Maryland has dwindled over the years as companies became casualties of mergers, sales and economic crises like the savings and loan scandal of the 1980s. The Federal Deposit Insurance Corp. listed just 13 single-branch institutions in the state as of the end of March. Two single-branch banks were closed by federal regulators this year, Ideal Federal Savings Bank and Bay National Bank. Bay Bank Federal Savings Bank, though, emerged in July from the ashes of Bay National.

"With all the changes in the climate of banking, people are getting 'fee-ed' to death by big banks and are looking for alternatives," said Terry Eyt, president of one-branch Vigilant Federal Savings Bank in Essex.

For the most part, these banks have smaller deposit bases, ranging from the \$184.4 million in total deposits at Bethesda-based Monument Bank to the \$7.9 million in Fullerton Federal Savings Association. Most fall between \$20 million and \$70 million. This compares to the largest institution based in Maryland, Sandy Springs Bank, which has \$2.75 billion in total deposits, and the largest U.S. bank, Bank of America, which has \$1 trillion in total deposits.

Serving the community

Many of these small banks were founded in backrooms, bars and other gathering places where neighbors decided to pitch in and start a building and loan institution. Fairmount Bank was founded in 1879 when 29 Eastern European immigrants met on the second floor of a Baltimore bar and collected the \$34 that became the bank's first deposit.

"A hundred and thirty years ago, people went to the local watering hole to find out what was going on and to do business," Fairmount President and CEO Joseph M. Solomon said. "So, a lot of banks, like Fairmount, were founded in bars."

The bank was started to promote homeownership in the neighborhood back when the bank was located on Fairmount Avenue near Patterson Park. The bank even kept its records in Czech until 1948.

Today, with \$49 million in total deposits, \$4.5 million in capital from an initial



Kopernik Federal Bank was created to serve the city's Polish-American community. It is named for astronomer Mikolaj Kopernik, whose name Latin name is Nicolas Copernicus.



Midstate Federal Savings and Loan Association was founded in 1884, has its lone branch on York Road in Towson. Above, Midstate Chairwoman Kathryn "Kitty" Gerling.

public offering in June and a new 5,200-square-foot headquarters in Rosedale, Fairmount Bank has come far from its humble origins. The bank, which has an ATM but is awaiting this fall's arrival of debit cards so customers can use it, still hews to its original business plan, residential loans where the officers know where money is going.

"We make loans where we can kick the tires, where we can see the real estate," Solomon said. "We weren't selling our loans to the secondary market, and if you're not doing that, then you're going to be sure of things like the

real estate is there and the lender can actually afford the loan."

Like Fairmount, Kopernik Federal Bank was created to serve an ethnic group, the city's Polish-American community. The bank is named for astronomer Mikolaj Kopernik, whose name Latin name is Nicolas Copernicus. The bank's sole branch is on Eastern Avenue, in the same building where it has done business since its inception in 1924.

Today the bank operates much as it did then, making conservative, no-frills loans. The bank has no ATMs, debit cards or online banking.

"Our customers are not usually people who are into having 24-hour access to their account, and everything we do is geared to the needs of the people in the neighborhood," Kopernik President Gary T. Amereihn said.

Vigilant Federal Savings Bank was founded in 1927 by firemen of the Vigilant Fire Company in Essex. The bank got its start making residential loans to customers in the neighborhood.

"They saw a need in the community for people to save and then reinvest those savings in mortgages for people," said Eyet, the bank's president. "This was a bank founded by a group of volunteer firemen in the upstairs of the volunteer firehouse, and that's where people used to come to make their deposits."

Dated or quaint?

As technology like online and mobile banking continues to become the norm, many smaller neighborhood banks have been slow or even resistant to adopt such changes for reasons including lack of customer interest and hesitance to absorb the resulting costs. Others hold on to mainstays of banking that have been abandoned by larger banks over the years. The goal is to provide customers with a level of service they might not get at a larger institution.

"I like the people, they're very helpful and nice," Rosedale resident and Fairmount Bank customer Jacqueline Adams said after visiting the branch Monday morning. "Even if I just run in, they'll say 'hi.' I hate to go into a place where they will stick their nose up at you when you come in."

Unlike the near-constant access touted at most banks today, the single-branch banks still emphasize the lobby visit, where tellers know customers by name. Many keep traditional bankers' hours, with lobbies closing at 3 p.m. during the week and extended hours on Fridays and some hours on Saturdays. The hours are a throwback to when visits to the neighborhood branch amounted to a social visit of sorts.

Before getting federally chartered, "Vigilant was only open one night a week and everything was handled by hand," Eyet said. "People used to come, watch TV in the lobby and socialize. It was pretty amazing."

In addition to the hours, some of the small banks have kept alive services and products that have all but disappeared from larger institutions.

Midstate Federal, located on York Road in Towson, has \$138.2 million in total deposits and offers its customers ATMs, debit cards and online banking. But customers can also opt for Christmas Club accounts and open passbook savings accounts where deposits are recorded by hand in the branch by the teller.

Vigilant and Fairmount banks also offer passbook savings accounts and Christmas Club accounts, in which customers can sock money away for the holidays. And each bank has its own coin counter in their lobbies, a popular feature for customers.

"When I started, the staff said, 'Please don't get rid of the passbooks,'" Solomon said. "I asked why, and they told me that the customers loved them."

Kopernik Bank still relies on mortgage passbooks. Unlike with coupon books or statements, mortgage holders mail their

books in with payment each month, and the book is updated by hand and mailed back to them.

"That way, the customer has the full statement and record of the loan right in their hand," Amereihn said.

Watching the bottom line

The single-branch banks have not been immune to the turmoil in the housing market. With bad mortgages creeping on the books — sometimes for the first time in years — the small banks have stuck largely to the business plans that have helped them survive the Great Depression and all the subsequent panics and recessions that have occurred.

"We're little, but we're strong. When this crisis came, it didn't hurt us a bit," Gerling, Midstate's former president, said. "You have your ups and downs, but you just move along slowly. Being conservative and not trying to become a millionaire overnight, that's the answer."

Glen Burnie Mutual Savings Bank, founded in 1896, focuses on residential loans to the exclusion of almost everything else. The bank does not offer checking accounts and does not have ATMs, debit cards or even a website.

"We don't try to be anything we're not," Marrian McCormick, Glen Burnie Mutual CEO, said. "I think we're very comfortable with who we are and what we do."

McCormick is the fourth-generation of her family to have a hand in managing the bank. Her brother, Edward Kuethe, is chief operating officer, one of the bank's five employees.

She said the bank has been able to succeed by staying conservative with its loans and avoiding the temptation of going head-to-head with the larger banks. Glen Burnie offers only savings accounts and residential loans, much as it did when it opened in a general store.

According to the latest information from the FDIC, as of the end of March, Glen Burnie Mutual had \$62.7 million in total deposits, and less than 1 percent of its total loans were recorded as being delinquent.

"We don't do the risky stuff," McCormick said. "When everyone was going 100 percent loan-to-value, we never came close to that, and for good reason."

Vigilant Bank offers other products, including auto loans, and provides amenities like ATM debit cards and online banking. But, with its headquarter less than a block from the firehouse where it was founded, the bank still follows the conservative approach to loans that has helped it succeed over the years.

"We did it by being conservative basically, and not getting into things we didn't understand or have expertise in," Eyet said. "If you do what you do well and stick with it, you'll succeed."

But, even careful underwriting can still produce some problem loans. This month, Vigilant had four foreclosures crop up for the first time in years.

"Before that, we have only had two foreclosures since 1927," Eyet said.

The smaller banks, which usually hold onto mortgage loans instead of selling them on the secondary market, turn to foreclosure as a last resort. The flexibility and hands-on approach available when you have a smaller number of loans in familiar areas often help stave off trouble when people fall behind.

"Whatever we can do to help them, we do," Eyet said. "And, unlike bigger banks, they can come and talk to me."

Amereihn, Kopernik's president, said his bank, which according to the FDIC has no accounts more than 90 days delinquent, has flexibility with loans that might not be available with larger banks.

"We'll work with the customer one-on-one when they're delinquent," he said. "We take a look at things on a case-by-case basis."

"Throughout all of this we've only had to take one home back, and that was for an investment property. Thank goodness we haven't had to do it with a homeowner yet."

Challenges to come

In addition to the turmoil in the housing market and other stresses, the single-branch banks are watching to see what the reshuffling of federal regulators will mean for them. With all of the consolidation and merging occurring in the industry, banks are wary that there might be an increased effort to consolidate the industry.

"It used to be a very active local market for community banks," Fairmount CEO Solomon said. "Now, with all the mergers and changes, you almost need a scorecard to keep track of things."

"Now, it looks like the way the market is going, there will be the big, multi-state banks and then the smaller community banks."



At the end of July, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. For area banks, that means a change in the primary federal regulator at the bank and holding company levels, if applicable. And, the Office of Thrift Supervision will be merged into the Office of the Comptroller of the Currency, while some responsibilities will be picked up by the FDIC and the Federal Reserve.

"The regulatory burden is getting tougher," Ely, the banking analyst, said. "The burden that this is going to place on smaller banks just to be able to cope is going to make it harder for a small bank to stay independent."

Eyet said he too has questioned what impact of the new regulations will have on Vigilant Federal.

"With us being so small," he said, "I have to wonder sometimes if our days are numbered."

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