

# AMERICAN BANKER.

## Main Street Fights Back Against Mutual Conversions

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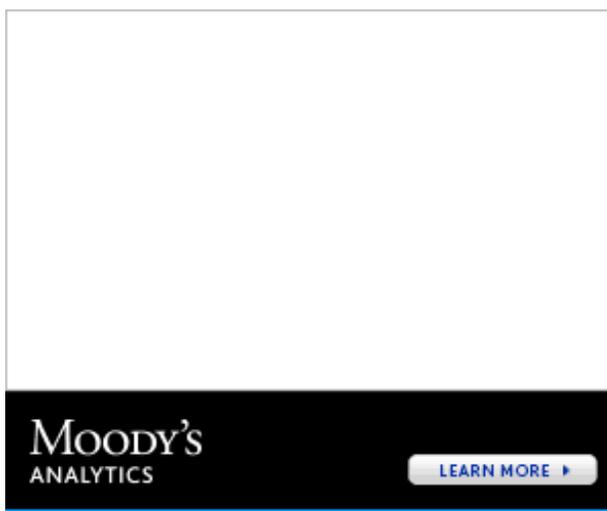
An interested and informed reporter, a lawyer's boilerplate provisions, a community-minded business owner and the recent sale and subsequent merger of another local bank. In the case of one Beverly, Mass., bank, these factors have so far added up to a failed mutual-to-stock conversion plan and the possible loss of as much as \$45 million in anticipated proceeds.

The failure of Beverly Bank's depositors to approve its conversion plan was certainly not anticipated.

No Massachusetts cooperative bank had ever failed to get the required approval in the past. There was no organized opposition to the plan, and the bank's management was well known and well liked. Few folks in Beverly even knew the conversion was taking place. The fact that Beverly Bank's plan collapsed despite these advantages suggests that other mutuals considering conversions may need to start expecting more pushback from their local communities.

A light turnout was expected at the special meeting to approve the conversion — mostly family and friends of bank insiders. The meeting notice was buried on the bank's website. The meeting time, 6:00 on an August weekday night, was inconvenient and was changed at the last minute with minimal fanfare. There was no easy way to read a summary of the conversion plan — just a reference to a hundred-odd pages of fine print prospectus. For an ordinary depositor, it would have been difficult to discern what the meeting was all about.

Reporter Paul Leighton was covering the bank's conversion for the local Salem News. While Leighton's stories were pointed and well-informed, they were not hostile to the bank or its plan.



His articles described management's objectives to raise capital to fund future growth and the bank's plan to endow a private foundation to continue support for local community charities and causes. They correctly observed that the bank's officers and directors could benefit financially from stock they acquired in and after the conversion if the bank was subsequently sold.

Leighton's articles also reminded his readers of the 2010 sale of local lender Beverly National Bank to DanversBank, a converted thrift from a nearby town. One year later, DanversBank was acquired by Peoples United Bank — a much larger institution based in Bridgeport, Conn. Local press coverage at the time noted that the DanversBank deals meant fewer local jobs, substantial financial benefits to insiders, and the loss of local business presences.

Shortly before the vote on Beverly Bank's conversion, Robert Liani Jr., owner of Salem's Coffee Time Bake Shop, wrote a letter opposing the plan to the Salem News and published it on his business web page. Liani pointed out that Beverly National Bank and DanversBank were sold "not because that was best for the community, but because it yielded the biggest return for the shareholders." In Beverly Bank's plan to convert and go public, Liani saw another institution "going down the same road." He noted that "offering stock to executives may provide a tempting incentive to sell." As to the bank's plan to endow a charitable foundation, Liani wrote, "We don't need more charity, we need strong community partners that lessen the need for charity." Liani urged his fellow depositors to vote against the bank's conversion plan.

In hindsight, it seems obvious that the aftertaste of the DanversBank transactions could influence the community's perceptions of Beverly Bank's conversion plan. Surprisingly, the bank made little or no effort to counter a possible negative association. Leading up to the bank's conversion announcement and vote, there were no chief executive interviews, guest columns or other efforts to explain the bank's growth strategy and distinguish its conversion plan from the prior DanversBank deals.

Even so, over half of Beverly Bank's depositors voted to approve the conversion plan. Massachusetts regulations governing conversions of cooperative banks that are owned by mutual holding companies require approval by a *majority* vote of depositors to proceed. The conversion could have gone forward on the basis of the Aug. 14 vote had its plan simply mirrored the regulations.

But inexplicably, Beverly Bank's conversion plan, which looked remarkably similar to plans other community banks had successfully used before, required a two-thirds approving vote. The Aug. 14 vote, though favorable, was short of the margin required by the bank's own conversion plan.

No one was prepared for depositors to turn down the bank's conversion plan. It is unclear what the bank will do now. It may call a new special meeting and attempt to reach a two-thirds favorable vote, or it may seek regulatory permission to proceed on the majority vote already cast. It's also possible that management will bow to the evident community sentiment that the conversion and probable sale of yet a third local bank is too much for the small town of Beverly to lose.

Whatever Beverly Bank decides, mutual banks in small towns across the United States should learn what they can from the bank's example. Mutual bank managements can no longer assume that if they keep their special meetings quiet, their meeting times and places inconvenient and their disclosure materials impenetrable, depositors who are not in favor of conversions won't bother to vote.

Mutual bankers may need to recognize that the standard pitch about needing capital to grow and compete is wearing a little thin with a Main Street business sector that has seen mutual after mutual with plenty of capital disappear a few short years after converting — with bank managers and directors getting seriously rich in the process. Small town leaders may be realizing that a private foundation funded with conversion proceeds will never be an adequate substitute for a dedicated hometown bank.

However the Beverly Bank saga unfolds, it is unlikely to put small-town concerns about the effects of local bank conversions to rest. The fact that these issues are being raised at all — and can unexpectedly stymie a bank's conversion plans — should be a wake-up call to all of America's mutual banks and to the communities they serve.

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