



Thrift - Industry News

'Fear of the unknown'

EXCLUSIVE

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By [Nick Gorski](#)

While the Obama administration has recently called for the elimination of the OTS as part of the overhaul of the nation's financial regulatory system, some investors and bankers are saying the effects on the thrift industry's day-to-day business would be limited.

Observers noted that the difference between thrifts and commercial banks has shrunk over the past several years. "The history of the thrifts was to serve the residential mortgage business and homeownership, and obviously that need can be served by multiple parties," PL Capital Group principal Richard Lashley told SNL. "There's been a slow, inevitable grind towards more banklike thrifts anyway."

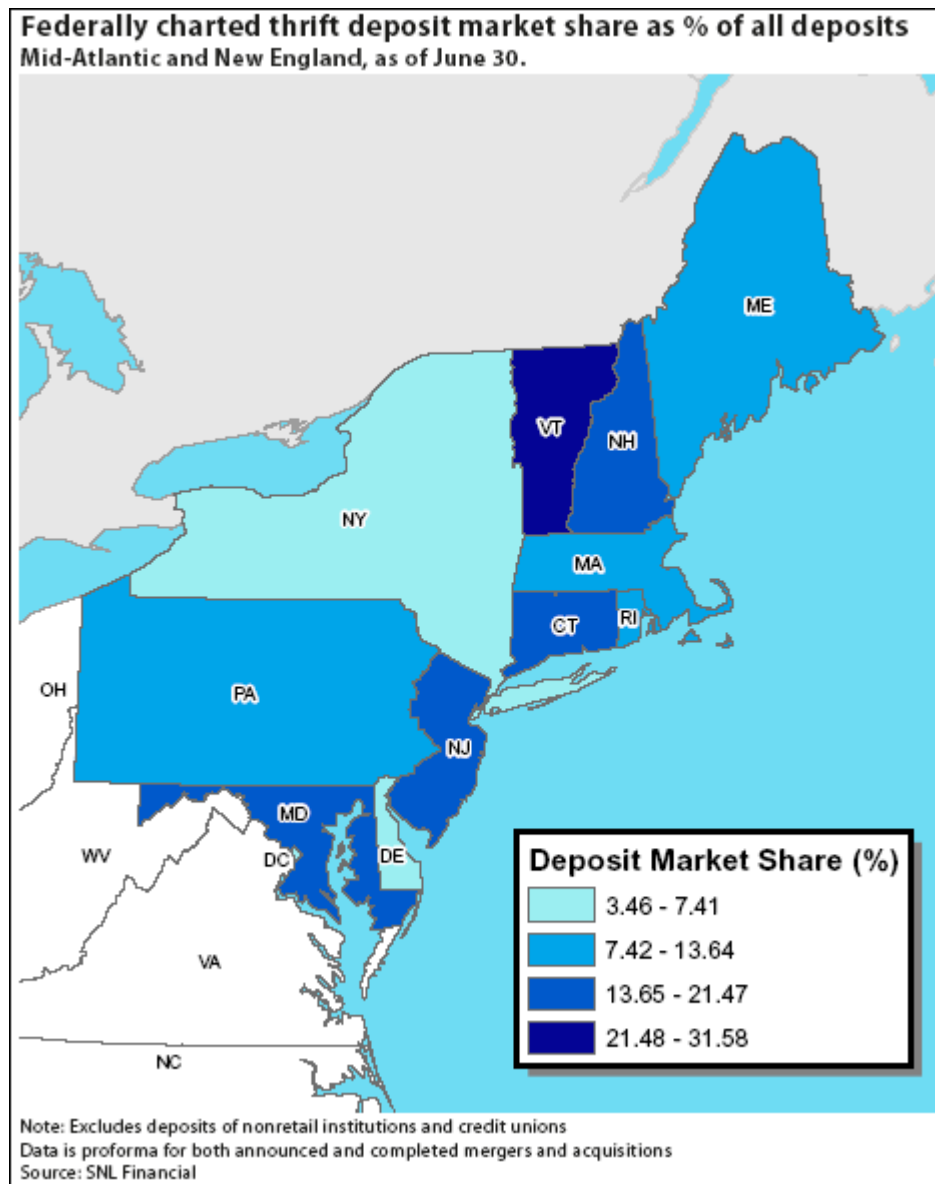
John Koelmel, the president and CEO of [First Niagara Financial Group Inc.](#), told SNL that all banking institutions have to focus on the consumer to some extent, not just thrifts. "Industry trade groups will continue to promote the benefits of the traditional thrift and savings associations and the consumer focus and the upside that comes with all of that," he told SNL. "If anyone in the banking business thinks they can make it on the back of the commercial customer, personally, it's just not a sustainable business model."

But many thrifts have become open to doing more business with commercial customers, First Niagara included. As a result, Koelmel said he does not expect the potential elimination of the OTS to affect the company significantly. "In terms of a direct impact on us, I don't really foresee one," he said. "We've operated with a thrift charter, but have really done so in what we believe is a much more banklike way."

Still, thrift executives aren't necessarily excited at the prospect of replacing their primary regulator. Allen Sterling, the president and CEO of [Auburn Bancorp Inc. \(MHC\)](#), told SNL that the proposed elimination left him with "fear of the unknown." He noted that many thrifts received their charters specifically so they could focus on residential real estate lending, and he was reluctant to give up that concentration entirely. Additionally, he said, "you're not sure exactly what kind of regulatory agency and oversight you're going to be left with."

While the thrift industry has been shrinking during the economic downturn, as many of the larger thrifts have either failed or been acquired during the last year and a half, federally chartered thrifts continue to make up a large percentage of deposit market

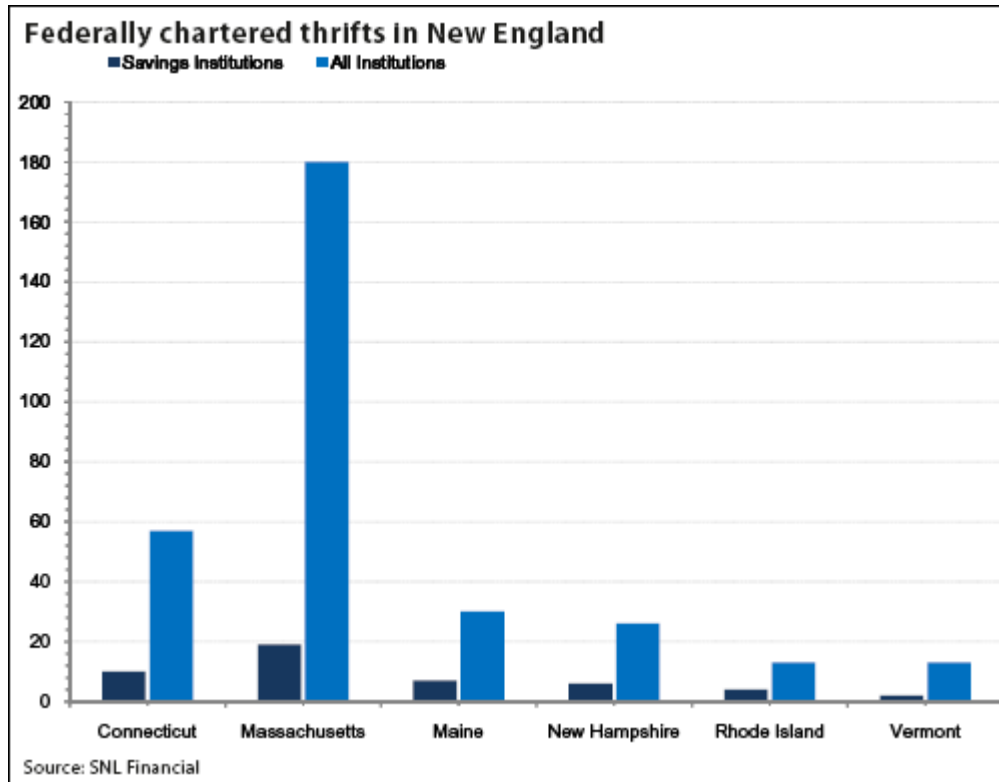
share in the Northeast.



It's not clear what final shape regulatory reform will take, but eliminating the OTS would not necessarily eliminate the thrift industry. Several of the largest thrifts remaining in the Northeast are state-chartered, including [New York Community Bancorp Inc.](#) and [NewAlliance Bancshares Inc.](#). Several states in the Northeast, meanwhile, allow de novo interstate branching across state lines with state charters: New York, for example, signed an agreement with Pennsylvania and New Jersey last year that allows such banks and thrifts to cross state borders and to continue to be regulated only by their home state banking department. Other states in the area, including Connecticut, Massachusetts and Vermont, allow reciprocal de novo

interstate banking.

Indeed, some federal thrifts may convert to state charters if the OTS is merged into a national bank regulator, Doug Foster, the chairman of the American Council of State Savings Supervisors, told SNL. "From a state perspective, I think that many of those federal charters would want somebody that has had regulatory experience in that area, depending on the level of consolidation that occurs at the federal regulator level," he said. "But if not, I think there is the possibility that there may be some ... charter conversions to a state thrift regulator."



Some thrifts would likely continue operating under the same business model as before the conversion. "Is [Hudson City \[Bancorp Inc.\]](#) going to do anything different because they have a federal bank charter?" Lashley said. "What will happen is, some banks will become more banklike, the next percentage will continue to do what they're doing on a different charter, and the next percentage will just give up and sell."

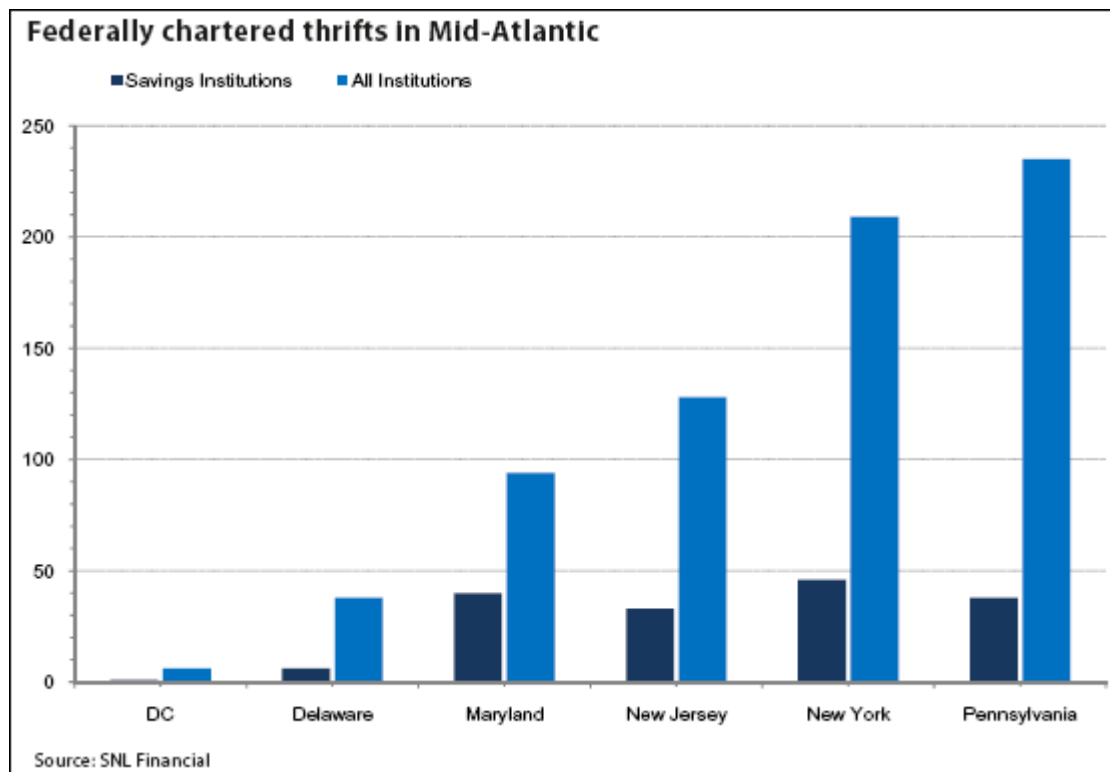
The biggest question that the proposal has raised is the [status](#) of mutual savings banks and mutual holding companies, which, along with credit unions, were not addressed in the proposal. "It's one thing to say an existing business that's already converted has to adopt a federal bank charter," Lashley said. "It's another thing to force a mutual to convert in order to adopt a charter."

Lashley said he would consider converting quickly if he were on the board of

directors of a mutual. Sterling, on the other hand, said Auburn was in no hurry to complete a second-step conversion, as the lack of guidance on future regulatory plans was a hindrance rather than a motivator. "We're trying to evaluate exactly what's going to happen," he said. "At this point, there's no reason to jump the gun and try to get anything done, and I don't think you could get it done right now in this market anyway."

While the impact for individual thrifts, especially of types not specifically mentioned in the regulatory proposal, has yet to be determined, there is not likely to be a major systemic impact from the elimination of the federal thrift charter, Foster said. "One [reason] is that the commercial banking industry is so much larger to begin with," he said. "They have, over the years, become more and more involved in residential lending."

Koelmel told SNL that, rather than debate how long the country should hold on to its historical models, it is more important to try and create a level playing field for all banking institutions. "I'd rather see all of us focus on ensuring we land in a better place," he said, "rather than hang on from whence we came."



*Bobby Shackelton and Kee Han contributed to this story.*