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To Tech, or Not to Tech?

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Growing in a Non-Growth Environment

A Conversation With Gregory R. Shook

Gregory R. Shook has been president and CEO of Essex Savings Bank since 1999. His banking career spans 32 years. He first joined Signal Mortgage Corp. in 1974 and several years later had the opportunity to move from Fairfax, Va., to Cleveland, Ohio. He joined the management team of State Home Savings of Bowling Green, Ohio in 1981. In 1984, he returned to Connecticut to join First Federal Savings F.A., located in Madison. In 1987, he left First Federal to join Branford Savings Bank, where he held a variety of senior management positions over a 10-year span. In 1997, he joined Essex Savings Bank's management team and was named the bank's president and CEO in July 1999. Shook is very active in the industry and with many civic organizations in the bank's marketplace.



Q: Please tell our readers about your banking career.

A: You are making me feel old. Here are some anecdotes. I started my career in 1974 while I was still taking college courses on the GI bill. I received a marketing management degree from Bowling Green State University. My first real job was as an assistant manager for a subsidiary of the then Philadelphia National Corp. in suburban Virginia, just outside Washington, D.C. My reward for doing a good job was to be shipped to Cleveland, Ohio to try and save a branch from closing as branch manager.

Early in 1981, the local hometown CEO of State Home Savings asked me to join him as an assistant vice president for residential lending. Shortly thereafter, I was named vice president of marketing.

In the summer of 1984 when visiting my parents in Westport, Conn., where I had grown up, and on a whim, I applied and was accepted to run marketing, investor relations and human resources for the then First Federal of Madison. After three years, I left on a Friday and was working on Monday at Branford Savings Bank. It had just gone public and needed marketing, investor relations expertise and various administrative duties to be handled. In 1990, I was promoted to senior vice president and corporate secretary.

In December 1997, I again left, this time to Essex Savings Bank as vice president of administration for John Barr Jr., who I considered a friend and an outstanding banker and individual. John's untimely passing at age 47 threw us all. After being employed here for only 18 months, I was named president and

CEO. It was a very proud moment for me and my family, but an awful way to step in. I simply put my head down, worked hard and here we are, seven years later.

Q: Banking has obviously changed a great deal since your first job. In your opinion, what are the biggest changes?

A: Adjusting to federally mandated changes in accounting, corporate governance guidelines, risk management and bank security that were not even contemplated just a decade ago. I struggle to spend time with the clients, which is usually after hours and with my civic participation. I consider myself the best salesman for the business – revenue, growth and profitability are the best way of preserving this business. I jump at a chance to meet people and have an opportunity to provide value.

Q: Over the past several years, Essex Savings Bank has made very aggressive product line enhancements, care to comment on the reasons?

A: In 1998, our board of directors invested in the majority purchase of John W. Rafal and Associates Inc. in Essex, Conn. They were then, and remained for seven years, the largest Raymond James office in the country at \$700 million in managed assets and locally operated. We decided in 1999 to add a trust department to complement their operation, provide service to their clients, our bank customers and the community. Also in 1999, the local publicly owned commercial bank sold to a larger bank and we picked up personnel to jump into the commercial business and become the local commercial bank. A few years ago, we formed Essex Financial Services Inc.

(Member NASD/SIPC), an independent broker dealer and removed ourselves from Raymond James. These initiatives are now paying dividends. The full complement of services and the diversity of our loan portfolio from just residential loans and the non-interest income aspects have helped us in these dynamic changing market conditions. I am proud to report that Essex Financial Services Inc. has been listed in Barron's with John Rafal, their leader, as one of the top 100 investment advisors in the United States for three years in a row. Our trust department rose from zero to \$120 million, the bank grew from \$110 million to \$250 million, while we actually increased our capital from 10 percent to 11.2 percent. Essex Financial Services now has \$1.7 billion in managed assets. We focus on relationship building and enjoy listening to our customers and providing solutions to their unique financial needs.

Q: Essex Savings Bank fosters an attitude of strong community involvement amongst its employees. Care to comment?

A: All of us are participants in the community by serving in some capacity, from servers at The Soup Kitchen to board members of local community organizations. Our Community Investment Program remains unique in two ways. First, we have committed to return 10 percent of the bank's after tax net income to nonprofit community organizations within our immediate area. The better we do in any given year, the more we can offer to benefit the community. This program reaches more than 200 different entities with our support. Second, 30 percent of these allocations are voted on directly by our customers. They tell us by ballot their top three choices of

the participants who have made application and we follow their directions in awarding the allocations. By the end of next year, we will have distributed another \$292,000 and since inception, over \$2.1 million dollars to the community.

Q: Connecticut is facing rising energy prices, an uncertain interest rate environment and continued concern whether or not New England will experience a housing bubble. What's in store for Connecticut's economy in 2007?

A: There have never been so many opinions that are divided on the direction of the economy. However, it is clear, as we speak, more houses are remaining unsold, residential loan production is declining and commercial real estate is still uncomfortably robust. The wild card of energy, both oil and now electric rates, should have a negative effect, at minimum, on discretionary income. The market price of treasuries is screaming that the rates are coming down, yet every economic scenario in the last few years has lasted longer than anyone is willing to admit. That said, we are fortunate that our business is located in a very desirable area. Our investment business and trust business are based on building and preserving assets and because of our demographic area the need for our services is still expanding. One can argue that now is the perfect time to seek solid, trustworthy and proven advice. You never really know for certain how the storm may develop or whether it misses you – but we all know you need to prepare.

Q: Risk management has become more than just a regulatory buzzword in the past several years, how is the bank dealing with this burgeoning issue?

A: The biggest risk is being able to provide value at a profit. We will remain cautious but not complacent, and select the types of products that protect our margins and offer the best opportunities to keep our earnings ahead of peer and manage ever-expanding risks appropriately. Liquidity, funding sources, margin protection and quality assets are major concerns in this inverted yield curve environment. In my career, there has never been a more expensive time to bring in core deposits. Regulatory risks continue to expand as burdens are pushed through the system without re-

gard to the size of the operation and they generally do not plug the holes nor fix the real issues. Risks are everywhere and it is up to management to try to mitigate them. They will always move the goal posts.

Q: What will be the most pressing challenges for Essex Savings Bank in the next three years?

A: Besides the ever-expanding best practices and regulatory burdens, community bankers have to worry about the big banks pricing the smaller ones out. The big banks have access to capital in a different way and are so fearful of each other and the potential of industrial corporations like Wal-Mart trying to get into the banking business that they will do virtually anything for market share. I believe that the margin squeeze is not a temporary phenomenon and we will have to figure out what works on our balance sheets and how we can continue to build this business in a hyper-competitive world. We offset this with sound advice, relationship-building and availability.

I am proud to say that according to the FDIC Uniform Bank Performance Reports

that (as of the fiscal year ending Sept. 30, 2006) we were in the top 11 percent in earnings for all FDIC-insured banks in our peer group of \$100 million to \$300 million. We were able to achieve this level of earnings even after taking into account the amortization of the purchase of our independent broker dealer and after expensing the donation of 10 percent of our after-tax net income to nonprofits and another 10 percent distribution to our employees.

We believe and need to communicate that we have a value-added formula with the relationships we build and the services we provide. Our outstanding advisors and officers have worked many years in this business and are engaged in making it prosper. We have been adjusting to market changes since 1851 and as the 17th president and CEO of a mutual bank, my job is to preserve and pass this on to the next generation with solid prospects, for not only the customers who appreciate us, but the employees and community we live in. ♦

Questions posed by Lindsey R. Pinkham, senior vice president and secretary of the Connecticut Bankers Association.

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