

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

CMS Bancorp, Inc. (CMSB)



JOHN E. RITACCO has served as the President and Chief Executive Officer of CMS Bancorp, Inc., since 2007, and of Community Mutual Savings Bank since 2005. He serves as a Member of the board of directors of Community Mutual Saving Bank, CMS Bancorp, Inc., and CM Charitable Foundation. He began his career at Fleet Bank in Providence, R.I., where he spent fifteen years; eight years in the retail bank as a Branch Manager and Area Manager and seven years in commercial lending, private client and franchise leasing areas of the company. In 1993, Mr. Ritacco joined First Fidelity Bank, later First Union, in Westchester, N.Y., as the Senior Vice President for middle market commercial lending responsible for the Westchester and Connecticut markets. Mr. Ritacco is a graduate of the University of Rhode Island, where he earned a B.A. in history/political science. In 2011, Mr. Ritacco was awarded an honorary doctorate from Johnson & Wales University.

SECTOR — BANKING

TWST: Would you begin with a brief historical sketch of the company and a picture of its operations at the present time?

Mr. Ritacco: Community Mutual Savings Bank is 125 years old. We were originally a small local mutual savings bank. I came to the company in April of 2005, and we embarked on a complete rebuild and growth strategy. In April of 2007, we took the company public and raised \$20 million. We are traded on the Nasdaq under the symbol CMSB.

Over the past six years, we've transitioned the company to more of a commercial/small business entity. We differentiated the business lines by residential and commercial/small business. We've added a number of new technology advances: online banking, telephone banking and deposit remote capture for the small business customer, which helps to lessen the need to have a branch office on every corner. In addition, we relocated most of our branches to better and more convenient locations within the same communities.

We rebranded our company with a new slogan, "Community Mutual Savings Bank, You're worth more here." Each of our branches is modern, welcoming and has all of the conveniences of a modern branch: parking, night deposit, ATMs.

The organization came from more of a quieter, local mutual savings bank, to now a broader-based, technology-based savings bank that is focused on the small business and the retail banking customer.

TWST: Would you tell us about the area Community Mutual serves and some of its key products and services?

Mr. Ritacco: We serve the Greater Westchester area:

Westchester, Dutchess, Putnam, Rockland and parts of Fairfield County. Our business in each of those areas is a mix of residential and commercial. Our demographics are pretty strong. Westchester is one of the top eight wealthiest counties in the country. We compete pretty heavily not only with the big banks, but with some fairly good local community banks.

We differentiate ourselves in the marketplace by having local decision makers and local branch managers; people who staff our branches generally live and work in the communities we serve. I believe in being involved in the activities of our communities. I often pick up my own phone and answer the questions and concerns of our customers. Community banking means being actively involved with customers helping them to get the loans in a timely manner or helping them to resolve questions and issues which affect their daily lives. I spend a fair amount of my time on customer calls, whether it's for a loan activity or just to meet with customers. It's the right thing to do. They need to know that there is a decision maker in the community who can help them with their banking needs.

TWST: You recently reported strong growth in net income and earnings per share for the fiscal year ended September 30 quarter.

Mr. Ritacco: Yes, our results have been ever improving. We expect them to continue to improve despite some of the very strong headwinds. We are in a very good market. We pride ourselves on providing high levels of customer service. Being local and being accessible to our customers has paid a very big dividend for us over the past three years while the larger institutions have struggled to gain their footings through the recession and some of the economic turmoil that they have faced.

TWST: In the earnings release you said, “Our loan portfolio mix of business has changed fairly dramatically over the past few years. We successfully transitioned from a predominantly one-to-four-family residential real estate portfolio toward an ever-increasing component of nonresidential and commercial loans, thereby helping us to keep our interest spreads at acceptable levels.” Would you tell us more about how Community Mutual has been able to do that and what it has meant for the bank?

Mr. Ritacco: We did look out into the future a bit and recognized that while residential mortgage lending was a principal responsibility for us as a community bank, we thought that at some point we ought to be prepared to sell lower-rate loans into the secondary market. So as interest rates came down and customers refinanced — and there was a big refinance boom, obviously — we took those mortgages at very low rates and were able to sell them in the secondary market. With that, we had begun to build out a commercial lending business. We had hired several local, well-known commercial lenders from some of the other institutions.

The bank itself really has a bright future. We continue to be a bank that customers can get an answer when they need it. We service our customers very well. People have come to recognize that local is good, smaller is better and service when you need it really matters.

So while our one-to-four-family loans were being refinanced and sold in the secondary market, we were replacing that almost dollar for dollar with commercial loans — C&I loans, commercial real estate loans, multifamily loans. We were able to keep the balance of our portfolio intact, but change the mix, so that the yield would be able to stay, at least, at the level prior to the refinance boom.

TWST: Did Community Mutual start the process before the financial crisis?

Mr. Ritacco: Yes. We began hiring commercial lenders in 2007 and 2008, and we laid the groundwork for our secondary market sales around the same time. The goal was to build the lending side of the business with as many alternative products as possible to make the company more competitive. I wish I was clairvoyant and had a crystal ball; however, we did not realize that the changes in the economy were going to come so quickly. But at least we were prepared, and we were able to reasonably handle it for the benefit of our company.

TWST: From looking at Community Mutual’s press releases, you’ve had six straight quarters of profitability. Would you talk about what was going on before that, and then, how the company came through the crisis?

Mr. Ritacco: We were fortunate, because the crisis didn’t impact our loan portfolio. We just stuck to our knitting, so to speak, as it relates to underwriting criteria. We never did any no-doc/low-doc loans or subprime loans. We stuck to the minimum 20% requirement, good debt-to-equity ratios and good income-to-expense ratios. We never deviated from the traditional lending guidelines. And as a result of that, our loan quality held up fairly well.

Early on, the bank hadn’t invested in its technology platform, and as a result, we just were not competitive in a marketplace that re-

quired you to be. In order to plan for the future of our company, we completed a series of renovations and branch relocations that required us to invest capital into the business. As we were building out the branches, hiring new people, adding technology and buying new equipment, we incurred losses in an effort to build what we believed would be a long-lasting banking business. The plan was make all the necessary business model changes which would attract new customers to the bank and help us to become more competitive. Therefore, if we built the model properly, we’d return to profitability and provide better returns for our shareholders. Fortunately, that has begun to play itself out. We continue to see good, growing profitability, and we continue to see our franchise getting stronger and, obviously, larger.

TWST: The company went through the demutualization process in 2007. How have you deployed those monies and how has that changed operations for the company?

Mr. Ritacco: We continue to deploy the funds in our small-business lending business. We have put more than \$60 million in the portfolio over the past couple of years, and while our total loan footings

look like they haven’t gone up very much, we’ve basically gone from a 98% residential mortgage to probably 65% residential mortgage, and the rest is commercial business. We’ve basically replaced all the residential loans, which were refinanced with commercial loans, thereby, supporting the local small businesses and commercial real estate groups in our community, while the big banks and others have been on the sidelines.

TWST: In late November, the company had a significant volume spike in trading, and then, posted some big one-day gains. As of December 19, according to Morningstar, share prices were up a little shy of 25% for 30 days. Do you have a sense of what’s happened with investor sentiment over that period?

Mr. Ritacco: I’d like to think that people have recognized that Community Mutual has come through the gauntlet, that it’s in healthy shape, is becoming more profitable and is a reasonably good investment for folks to consider as they look at the microcap segment of the banking industry. I’d like to think people see us as a company that’s going in the right direction and offers some opportunity for a potential investor.

TWST: What’s your broad-brush outlook for the industry in that area and for the company in particular?

Mr. Ritacco: The industry continues to be dealing the headwinds associated with the economy, higher levels of regulatory capital requirements and the issue of enhanced and more costly compliance associated with the new Dodd-Frank legislation. We continue to look to meet the needs of our customers, stay focused on maintaining a strong, healthy and profitable bank.

The bank itself really has a bright future. We continue to be a bank that customers can get an answer when they need it. We service our customers very well. People have come to recognize that local is good, smaller is better and service when you need it really

matters. People will pay a little bit more knowing that they can pick up the phone and actually talk to somebody who can give them an answer. That has made a dramatic difference for us over the past three years or so, and it has allowed us to attract a significant number of new customers to the bank.

TWST: And when you speak of headwinds, what are the major challenges for Community Mutual as you look out to 2012, and how is the company dealing with that or preparing to deal with that?

Mr. Ritacco: As others have said, it's the economy. For us it's the economy because consumers continue to be shackled with the issues of long-term unemployment, limited disposable income levels, higher levels of personal debt and a continued decline in the residential real estate market, which limits their ability to access cash from their home equity lines of credit.

On the business side, the business owner is hesitant to expand as they are faced with the issues of health care costs, taxation and a general feeling of uncertainty, which limits their willingness to grow and take calculated chances.

I believe 2012 is setting up to be more of what we have seen in 2011. Although, I remain guardedly optimistic that we could see a modest improvement in the economy as long as the financial problems in Europe do not make their way to the U.S. However, I still see loan volume in 2012 continuing to be tepid for several more quarters, especially as long as the economy, housing and the uncertainty associated with taxes and health care continue to remain unresolved.

TWST: Would you provide us with a snapshot of the bank's financial situation? It sounds as though the company is comfortable with its balance sheet?

Mr. Ritacco: We have managed the bank with an eye on 2012 and beyond. We have good asset quality, good liquidity, good earnings and a good interest margin spread. We are moving in the right direction. "Slow and steady wins the race" during these difficult economic times. We're trying position the bank for the next wave of economic growth, and I think we'll be ready to take advantage of it — hopefully, in the not-too-distant future.

TWST: Do you believe investors have a good idea of what Community Mutual has to offer?

Mr. Ritacco: I think the ones that have invested in the company do. We regularly talk to investor groups or specific shareholders about what we've announced and what our earnings have been, and our pluses and minuses. I think because we're a microcap, local, community bank, we're not in the greater investment community. Most people probably don't know who we are, which I hope articles like this will help. Those who do know us know us pretty well.

TWST: Looking ahead, what may be some of the year-by-year milestones or indicators investors could be looking for if they are keeping an eye on CMSB?

Mr. Ritacco: Continued levels of profitability, continued levels of earnings per share, return on equity and return on assets incrementally improving each year, and, hopefully, building a bigger bank and a better, stronger franchise.

TWST: What would be the two or three best reasons for a long-term investor to look closely at Community Mutual?

Mr. Ritacco: Good marketplace, strong earnings potential, good asset quality and a bank that's really focused on growth in a marketplace that's competitive but allows for future growth.

TWST: Anything else you would want to cover?

Mr. Ritacco: With the technology platform, a bank like Community Mutual can compete with the big banks. You've got virtually the same online services, and I believe that's kind of leveled the playing field. The number of locations is less of an issue for us because of technology. We're not a retail bank. We are really a business bank with a retail business. The technology allows us to really spread our wings geographically. It allows us equal opportunity to get business no matter what the geography is.

TWST: That's helped battle the larger competitors?

Mr. Ritacco: A lot of the big banks — Chase, Bank of America, People's Bank — they're all in here. I think the local banks like Community Mutual, Greater Hudson Bank, The Westchester Bank and Mahopac have made up ground during the past several years. The advantage community banks have is being locally run. I sit in White Plains and I can go from Mount Vernon to Mount Kisco and visit any customer or branch within 30 minutes. That's a distinct advantage today, because the consumer or the small business client is so used to going to their local branch and having to work with a different person or having to calling a 1-800 number that happens to be in India or some other location. With us, they can go to our branch and see virtually the same person there all the time. And if they needed to, they can come to our corporate office and get things resolved immediately. That's community banking at its best.

We do a lot in the community, philanthropically, too. People now look at community banks and they say, "We can see them, feel them and touch them. If they can support our needs, we're going there."

TWST: That seems to be a theme among CEOs.

Mr. Ritacco: One thing about the consumer. When they have a financial need or problem, they want help immediately. And if your bank provides them with the help, they'll never forget you. They'll never leave you unless you give them a reason to leave. These are the times where customer loyalty is solidified forever.

TWST: Thank you. (MJW)

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