

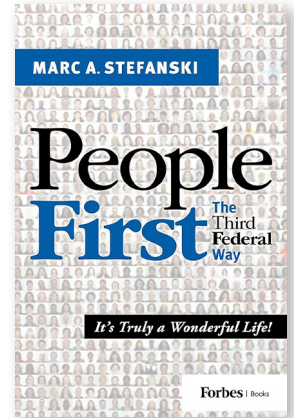


Executive Book Summaries®

People First

The Third Federal Way

by **Marc A. Stefanski**



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THE SUMMARY IN BRIEF

This is the story of how a business builds a culture – and how the values behind that culture have touched so many lives. In 1987, Marc Stefanski succeeded his father Ben as Third Federal chairman and CEO. This is where the story begins.

People First: The Third Federal Way is a story that invites reflection on how we live both our personal and professional lives. Third Federal survived numerous challenging moments. Its leadership team went through the Great Depression, the savings and loan crisis of the 1980s, the housing bubble of the 2000s, the Covid-19 pandemic, and others. Through all these challenges, Third Federal remained strong, stable, and safe.

IN THIS EXECUTIVE BOOK SUMMARY:

- The secrets of running a successful family business
- Leadership paves the way forward
- The most important Third Federal values that have remained unchanged through the decades
- Learn how business and family life can complement each other

Chapter 1: Values, Family, and Business: An Introduction

The Third Federal story really starts with my father, Ben Stefanski. Not when he started the bank, but many years before that, when he worked as a real estate secretary and managing officer at Pyramid Savings in Cleveland. My father was moving through a promising career when the stock market crash of 1929 happened, and Pyramid became one of the many financial institutions that failed.

By collecting mortgage payments when possible and selling off property when he could, he eventually paid every penny back to Pyramid's depositors.

"A hundred cents on the dollar," he used to say, which meant that he intended to mark and repay every last cent, to piece back together every dollar he'd been entrusted with.

My father's attitude toward his depositors back in the Pyramid days and his drive to treat his depositors as if they were his own family are still alive in the values of Third Federal. They're the foundation upon which the now multigenerational bank has been built. After my father had paid back all his depositors, he founded Third Federal Savings and Loan.

Third Federal Savings and Loan is a \$17 billion thrift founded in 1938 in a predominantly Polish neighborhood in Cleveland by my father and mother, Ben and Gerome Stefanski. The bank has prospered because it embodies the sort of respect and integrity my father showed throughout his career.

Our values have resulted in astounding growth, perpetuated healthy families among our associates, and re-energized many of the communities we serve. We believe that work should be gratifying and fun while also believing that all these values lead to a commitment to excellence.

These values create a positive feedback loop that not only makes Third Federal a stable, prosperous company for its associates but also one that helps its community and finally often makes a great impact upon the families of those who work and bank there. This book is meant to showcase these values for those not familiar with Third Federal and also to serve as a celebration of the Third Federal values for its associates and its customers.

Much of this book is about how the core values became an integral part of the leadership at Third Federal. As an introduction to these values, it's important to examine the way our leadership style led us to these values. My dad's heart attack was, unfortunately, the de facto succession plan

for the bank, which really took effect when he subsequently suffered a series of debilitating strokes.

A critical moment in my journey to finding the values of Third Federal came when I was asked to step up as the CEO of Third Federal. I wasn't in charge, and then the next moment I was.

As I took over, I knew that anxiety was the prevailing feeling among the longtime associates at Third Federal; it's not easy to watch someone new take the lead, especially so unexpectedly. One counterbalance was to be open about my thoughts and what I saw as being best for the organization. It was time to expand the bank beyond my dad's dominant personality. I told the associates that I was determined to make my mark as CEO in my own style. Since my natural inclination is to build and enjoy trusting, caring relationships, I wanted to make people the bank's focus, as well.

Chapter 2: Leadership

The heart is always involved in leadership—caring for people is the soul and spirit of influence and guidance. This kind of leadership wasn't new to my mother, not really. It was a deeply held philosophy of hers, and it just took me some time and maturity to see it. When I used to go to her office at the bank to visit with her, she'd say, "Marc, use your position to firmly guide with kindness and understanding."

In addition to nurturing, I think leadership involves being one who shows the way. A leader is somebody who is looking to the future, and I think leadership (as opposed to management) is more about the heart than the head.

As a company, Third Federal uses its vision of leadership to provide a sense of continuity and to perpetuate a culture in which it is easy to thrive. Our practices support our goal of using values to build relationships.

When leaders show personal interest, have integrity, and embrace the value of love, they take action on the behalf of people. They have the opportunity to give of themselves and to make an effort for others' well-being. Caring—that's the true joy of leadership and also a way to make life's challenges easier to bear.

None of this is to say that Third Federal doesn't emphasize profitability.

An emphasis on profit is needed to balance out compassionate leadership. The emphasis Third Federal has on helping

Love, in reality, defined in terms of the values of Third Federal, means a genuine concern for others.

its various communities does require a steady and clear vision in its leadership. Leadership in this style needs to balance being soft on people with being hard on issues

Chapter 3: Love

“Love” is the kind of term that gets a cringing reaction from the cynical realists of the world. It’s the kind of term that might even earn someone an HR meeting in the right context. Love, in reality, defined in terms of the values of Third Federal, means a genuine concern for others.

At Third Federal, love is one of our values—perhaps the value from which all our other values, in one way or another, originate. In the context of Third Federal, love refers to the genuine concern for others. It guides our organization, the culture among our associates, and our interactions with our customers. It’s the foundation for our customer service, the products and services we offer, and for how we interact with our community. So how do we practice love on an institutional level, and how does that end up benefiting Third Federal and its customers?

For starters, we place our genuine care for our customers and our associates above all other concerns. This means we do not engage in short-term strategies that might alienate customers, be bad for our associates, or damage the long-term reputation of Third Federal.

This genuine care we have for our customers has been so effective that we retain customers for decades and generations, and we draw in many of them through referrals. We also regularly receive letters of thanks. Both our associates and our customers tell us that they feel as if they are part of our family when they’re interacting with Third Federal—that they are grateful that our organization is what it is and that they feel thankful to be a part of it. It all sounds very utopian, but it’s also a practical matter. This culture centered around the value of love greatly strengthens Third Federal and has enabled us to be a multigenerational bank that is the cornerstone of the communities where we have established branches.

In addition to using love as a guiding principle for our interactions with customers, we emphasize love among our associates.

As a result of this emphasis, we have minimal annual turnover among our associates. We also only have a third of the associates an organization our size typically has. Our associate turnover is under 5 percent. The turnover for financial institutions tends to be much higher, typically 23 percent in the banking industry. These numbers let us transition a significant portion of our company into an online workplace almost instantly during the COVID-19 pandemic, and it kept our workforce intact through it all. People at Third Federal are willing to go the extra mile for our values.

Chapter 4: Trust

Although trust itself is a soft value, the results speak for themselves. We have a record of strength and stability, so our customers knew to believe us when we told them that the proceeds from our IPO would be used to further increase our capital position and facilitate an expansion that would make us even more stable. Third Federal had a \$5 billion market cap and \$10 billion in assets at the time. It currently has \$17 billion in assets as of 2024. This is a result of the trust our customers place in us. Our commitment to honoring that trust is what put us in a strategic position that allowed us to survive the 2008 mortgage crisis.

When we pursue trust with customers, we start off by establishing a strong sense of mutual communication. One of the frequent pieces of positive feedback we receive is that we use “layman’s terms” as we explain our loan offerings and the loan origination process. We also engage in the fastest turnaround times possible with our loan approval process and document preparation. Customers left waiting generally trust the process less and grow more anxious about what’s going on with their loan. Similarly, we let customers know exactly what their rate will be when they apply. Many banks wait until the loan is being finalized and closed before offering the true rate. They want to bait and switch the customer—obviously not a move that’s going to

inspire trust. Ideally, our customers know what's going on throughout the entire process, and they trust us once they see that we're plain dealers who uphold our end of the relationship. We want them to see for themselves that we prosper when they prosper and that we survive by keeping them as a customer and even earning their trust and support so that they bring their families and friends to Third Federal.

Trust is, by its very nature, a long-term commitment. Life would be easy if things like our IPO story could have a fairy-tale ending like "happily ever after," but some of our customers who had been with the bank almost since the beginning, began to run into problems a few years after purchasing the preferred offering of our stock. We began to get calls from customers who had purchased stock and who had since become widows or widowers or who were the surviving family members of those who had purchased the stock. In many cases, these customers were unfamiliar with stock ownership and the disposition of their investment.

Chapter 5: Respect

Respect is critical. It's why it's one of the values at Third Federal. It has these apparent benefits that many people could trace, but it often leads to even more intangible benefits.

So how does an organization create an atmosphere that fosters respect? One of the things we do is to emphasize the achievements of teams and groups rather than heaping glory upon an individual leader. We want to make sure that everyone in the bank is aware that we know of their contributions and that we know how critical they are — even if those accomplishments aren't necessarily as visible as those of their colleagues. We want everyone in the company to be aware of these ideas—to that end, we frequently make an effort to bolster and reinforce that teamwork with special events and visiting public figures.

Sometimes fostering respect in your company might take some big leaps and some significant guidelines. For instance, for most of our history, Third Federal generally has not allowed associates to work from home, and since the pandemic, we offer hybrid schedules rather than fully remote positions. Emailing and video conferencing from home may have their advantages, but in other ways, they undermine the effort to reinforce a culture of caring.

Expanding on the idea, we also put a lot of emphasis on respect for the customers.

Demonstrating the respect we have for our customers is of paramount concern to Third Federal. The "Yes! We Can" campaign was meant to emphasize this for both our associates and our customers. Customers who know that we respect their needs are more likely to choose us as their bank. I believe it's one of the many reasons we have so many multigenerational clients.

Chapter 6: Excellence

By the end of the 2008 mortgage crisis, Third Federal was still standing, and in better shape than most of the competition. This is because we hold our associates to a higher standard in terms of commitment to the job, production, dedication, and loyalty.

Here's what outside analysts often don't understand about Third Federal—that my father's experience in the Great Depression still guides the bank to this day. My father always made sure the bank had more than enough capital. My father also only found new markets in clients who he knew would pay back their loans. He was not only flexible but also careful. Third Federal invests heavily in its community, but the risks we take are very calculated. When we give loans in less than ideal circumstances, we make sure they are endeavors that are going to improve the communities we serve.

To reinforce this and provide stability, we stay profitable by focusing our marketing strategies on attracting strong customers who will pay us back. This strategy has helped us to keep a capital ratio that is well above that of our competitors. All of this means that, as much as we would like to help them, borrowers who intend to engage in speculation or flipping are welcome to look elsewhere. That conservative approach is the right thing to do for Third Federal, and it is the basis for our commitment to excellence. Simultaneously, Third Federal has a large commitment to lending in its communities, ensuring that we provide growth that helps everyone thrive.

A commitment to excellence involves constant evaluation. Are you setting the bar high enough? Are you engaging with the needs of both associates and customers? Are you constantly questioning your own perspective? Are you adhering to your values while you do all this?

The associates at Third Federal are trained to ask themselves the following: What kind of quality and diligence are we putting into our relationships? Are we fully satisfied with the way we help our customers? If not, is there room for

Reacting to chaos, and sometimes even creating it, is a part of growth and innovation.

improvement in those interactions and tasks?

A true drive for excellence involves a number of endeavors where perfectionism is virtually impossible. People who strive for excellence have a strong need for order and organization, but they also need to understand that not all will be ordered. Reacting to chaos, and sometimes even creating it, is a part of growth and innovation. Those who strive toward excellence obviously have high expectations for themselves, but they also need to be able to accept their own mistakes and have positive ways of coping with those situations where perfection is impossible. One of the most vital traits of a person who achieves excellence is that they are able to both recognize and learn from their mistakes.

Chapter 7: Fun

As ironic as it seems, fun is a serious part of Third Federal's overall strategy for success. It's the way that we manage people, our message, and our delivery of value to our customers. We take ourselves seriously, but levity is important to our culture. We approach fun as a way of keeping our culture intact, reinforcing our values, and strengthening the bonds we have with each other.

One of the main ways that we accomplish all of this is with the events we have for our associates and their families. We make fun events part of our work routine at Third Federal all year long, and we promote many company-sponsored events across April, so many that we call April "Fun Month." In addition, I host a Christmas gathering for associates in each of our regions, and a summer concert and celebration for associates and their families in both Cleveland and Florida each year.

Chapter 8: Making a Difference: A Legacy of Love

Charity is one of the chief virtues of being a human being. We're at our best when we're helping others. It's always been my opinion that those who have the means to help others are under the obligation to do so. It's important to leave a legacy

of love for our families and communities. Charity is a way of doing this that isn't just about making widgets.

Starting with my father, my family has always done our best to contribute to our community. The Slavic Village neighborhood and the other areas surrounding our bank are some of the main areas in which we engage in community investment, but they're just the start of the impact of the Third Federal Way and our values.

One of the biggest impacts on our drive toward charity, and the namesake of one of the main charities of the Stefanski family, is named for my wife, Rhonda, who passed away from pancreatic cancer in 2014.

Rhonda was on the path to carrying out her own philanthropic undertakings when she was diagnosed with pancreatic cancer during a routine examination. Her efforts were cut short, as she passed away within ninety days of her diagnosis. It was quick and devastating for me and our five children.

After having seen the awful effects of cancer and knowing that Rhonda didn't get to carry out the biggest charitable endeavor she'd ever undertaken on her own, the Stefanski family started Rhonda's Kiss. This charity is aimed at bringing comfort and providing patient support services to those families who are undergoing cancer treatment and don't have the means to meet the various financial challenges a cancer diagnosis presents.

Conclusion

In 1999, Third Federal hired an analyst to look at our business. I wanted to make sure we were in great shape—to get an outside opinion. It's easy to miss something if you limit your perspective. They poked and prodded around the bank, getting to know the people involved, our processes, and how we managed our workforce. When finished, we sat down in my office and went over the big report at the end of their examination. They projected graphics, ran down the figures, and had generally dissected the entire business.

They were deeply impressed with how we do things. The

results Third Federal gets are, after all, undeniable. But they had one nagging issue. Why not get rid of all the touchy-feely stuff? Why not eke out even more profit and productivity? Why not service customers faster?

Why not expand more?

These are the kinds of questions I've come to expect from people who don't think the Third Federal Way. They put short-term profit over the core values we have, and it shows. Growth doesn't matter if it isn't stable. Profit doesn't matter if you need to exploit your customer, or your associates, to get it. That's how you lose good people. In our experience, that profit is likely to be destabilizing. Third Federal makes a profit by thinking in the long term. Our goal is always to be among the best in the market, and we do that by acting fairly and remembering our values.

The love, trust, respect, commitment to excellence, and fun that drive the Third Federal Way make us exceptional. Adhering to all our values makes us a formidable force in the banking business.

As I write this, I've been reflecting on a new practice I've dedicated myself to—and preached heavily to my team. On holidays and special occasions, we've come to expect gifts—cards, objects, and money. Sometimes it's something a person really wanted; other times it might not be. Either way, I've realized that we rarely get what we want from these exchanges—the sentiment behind them. I'm now dedicated to giving people the gift of words. These can be kind, encouraging, loving, supportive, nurturing, or fun, but they'll definitely be words that are meaningful to the person I'm speaking to, like: "I love you;" "You're special to me;" "I couldn't run this

company without you;" "You make a huge difference here."

The gift of kindness matters at home as well as at work. Imagine if we had more kind words for our significant others and friends and coworkers. The world could be changed.

An awareness of how much people matter, of how we need to trust, love, and respect each other, and to have fun in our quest towards excellence, those are priceless things. They're the Third Federal Way.

I couldn't be more grateful for the chance to live my life the Third Federal Way.

I hope you have a chance to live that way too.



Marc A. Stefanski is chairman and CEO of Third Federal Savings & Loan, headquartered in Cleveland. The company was founded by his parents, Ben and Gerome Stefanski, in 1938. Under Marc's leadership, the company has grown from \$2 billion to \$17 billion in 2024. Marc, the youngest of five children, grew up in Shaker Heights, Ohio. Along with his family, his first loves were music and sports, forming his own rock band in eighth grade, a version of which continues today.

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