What Do Bankers Think?

Local banking chiefs open up on lending, poison assets and whether the TARP funds are really working.

Bobby L. Hickman | February 5, 2009

Ask several bankers when they think their industry will begin returning to normal and you'll probably get several different answers, with most ranging from six to 12 months or more.

The bottom line: "Bankers don't know where the bottom is—nobody does," says Lee Bradley, managing director of bank development for Commerce Street Capital LLC.

Bradley believes moves such as injecting TARP (the federal Troubled Asset Relief Program) funds and changing mark-to-market rules will help. However, "I don't see the situation turning around anytime soon. It will be late 2009 or 2010 before we truly hit bottom and start to see some sort of upswing."

Marvin Cosgray, CEO of The Buckhead Community Bank, sees hope in shifts in federal policy, but not until later this year. "By the fourth quarter this year, some of the actions being taking in Washington will start to take effect." He says his bank is already seeing positive effects of lower interest rates on mortgage refinances. "This administration is making a concerted effort to restore confidence in the banking system, and to get housing started," he adds.

Charles Green, president of Sunrise Bank of Atlanta, is more optimistic, saying economic stimulus plans could jumpstart some improvement by summer. "The proposed 'bad bank' structure, which would allow banks to rid themselves of poison assets, could give immediate effect and relieve a lot of people about capital concerns," he says. "That might possibly open up everyone's credit appetite."

In the meantime, Bradley says, bankers in general "have a bunker mentality right now. They're not looking at lending; they're worrying about when the next customer is going to call and tell them they can't make the payment." He cites the general trend of banks no longer making real estate loans. "They did so much of it before," he says, "and now they don't want to do any of it.

Cosgray says Buckhead Community Bank's lending policies have remained the same during recent months, except for loans to builders and developers. "We're not looking at any of those right now—not any speculative construction, nor acquisition and development loans for builders."

Buckhead Community is also seeing a decline in SBA loans, although commercial lines of credit remain steady. Cosgray says his bank is still making loans to people to build their own homes. "Our loans on construction and development are down 100 percent, and SBA loans are down about 70 percent," he says. "Lines of credit are about the same, while loans to individuals buying homes are down about 50 percent."

At the end of January 2009, he says, Buckhead Community Bank has deposits of $794 million, assets of $947 million and loans outstanding of $725 million. "Our loans peaked at $732 million in June 2008 and started coming down," Cosgray adds.

Sunrise Bank is also "a smaller bank than we were in the middle of the year," Green says. At the end of 2008, the company had just under $63 million in assets and $53 million in loans.

He says Sunrise primarily lends to small businesses and real estate projects. However, "Speculative homebuilding is virtually at a standstill, and any kind of raw land deals are just about impossible. We're not doing those anymore." Otherwise, he adds, Sunrise has not changed its lending policies.

Green says the current economic problem is a cyclical spiral where banks are conserving their capital and "people who do have good transactions have a hard time buying and selling."

What could break the cycle? Green says the TARP program "has the promise of doing that—except most of the recipients are shoring up an already concerned position where they are. I don't know that it's going to stimulate lending. The regulatory community is not 100 percent in line with the Treasury Department about what's needed and what needs to be done. That conflict has the bankers in the middle of it." He says he hopes new stimulus proposals from the Obama administration will contain "more practical tools."

He adds TARP "hasn't really worked. Six banks have shut down in last 32 days."

With all that uncertainty, it may not seem like a favorable environment for starting a new bank. However, Commerce Street Capital is currently working on several de novo programs in various states, according to Bradley, who heads the firm's Atlanta-based bank development unit.

"People are still starting banks, although many of these were already in the pipeline last year before the financial markets ran into difficulties," he says. "And we're still finding people willing to invest. We're still finding capital but it's definitely taking longer."

"You can make a pretty good argument that a de novo bank with fresh capital and no bad assets has a competitive edge over a money center bank, a regional bank or another community bank," he adds.

For example, Commerce Street worked with Verity Bank in Winder, which opened last fall with an initial capital raise of $21.7 million. Bradley says Verity Bank just passed its 90th day in business and it now has more than $30 million in assets.

Bradley says he has also been calling on community banks in the metro Atlanta area "that are in desperate need of more capital because they have bad asset problems. Some of them aren't going to make it. Those that do survive are going to be in a much stronger position."

Raising new capital for existing banks remains difficult, he says. Many in Georgia are still waiting for TARP money, and "the rules keep changing." He says the Treasury Department told one bank, "We'll give you $7 million, but you've got to raise another $4 million on your own."

Some community banks in metro Atlanta believe they "have a handle on all the bad assets" and are seeking capital for a turnaround, Bradley says. His concern is that not all the problems have been identified yet. "I'm looking to raise capital for some recapitalization deals," he says. "The challenge is finding one that I believe will be a survivor—one where the hole is not so deep that can't fill it up with some capital to get to the other side."

Bradley says community banking has gone through a bubble similar to those seen in the stock market and real estate. "Now we're going to have a good cleaning out and start over again. It's sad to say but it's probably a healthy thing in some respects."