

Taking pulse of local banks

They're slightly tighter with lending, still stubbornly profitable.

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St. Louis bankers held tight to their money as spring turned to summer. New figures from bank regulators indicate that local banks cut back lending slightly in the quarter that ended in June.

The latest figures show that banking isn't a rosy business these days.

Profits are low, and the percent of problem loans rose during the quarter at eight of the 10 largest locally based banks, according to preliminary data from the Fed. Still, the vast majority of local banks remained stubbornly profitable during the worst recession in a generation. Of 77 banks based in St. Louis, 15 lost money last quarter.

Only three small banks — Champion, WestBridge and Gateway — are not considered “well-capitalized” under federal banking standards. That puts them on the worry list for bank regulators.

“We really only have a handful of banks in St. Louis that are exceptionally weak,” said Julie Stackhouse, chief bank regulator at the Federal Reserve Bank of St. Louis. “It’s not anticipated that we will have a lot of bank failures.”

Rick Hummell, president at WestBridge, said he is “very close” to a deal with a group of investors who would provide new money and “have an interest in running the bank.”

WestBridge is under orders from the FDIC to raise capital. Capital is a cushion of owners’ money in a bank that serves to absorb losses and prevent failure.

Last week, First Banks announced that it was canceling

dividends, delaying payment on some debt and selling off its Texas branches in the face of \$182 million in losses in the first half of the year. The bank said the delayed debt payments are permitted under its loan contracts.

First Banks bet heavily on the California real estate development and lost big as that state’s housing market collapsed.

Centrue Bank announced a \$16.2 million loss and suspended its dividend amid a sharp rise in delinquent loans. Centrue is based in St. Louis, but has only a small operation here. Most of its branches are in northern Illinois.

Loans to housing developers are a common thread at troubled St. Louis banks. But bank regulators worry that problems are now popping up in other forms of commercial real estate lending, such as shopping centers and office buildings.

Banks have been trying to back away from commercial real estate loans — to the consternation of building owners — but they still represent 38 percent of the average bank’s loan portfolio in St. Louis, down from 40 percent a year ago.

“It’s one of the bigger concerns we’re hearing out there,” said the Fed’s Stackhouse.

The failure of retail stores and lower demand for office space puts pressure on landlords. Even those that can make their loan payments can face a crisis as their loans come up for renewal. Many of those loans were made in the boom days when credit standards were low. They’re much tighter now.

Banks say they will cut

deals with troubled customers, rather than foreclose, if it appears they can recover. “No bank wants to be standing on the courthouse steps with their collateral up for sale,” says W. Thomas Chulick, CEO of UMB’s St. Louis bank, which is not a big real estate lender.

Chulick notes that both employment and consumer demand is expected to be weak through much of next year. That means no quick end to the commercial real estate woes.

Banks appeared stingier in general during the second quarter, but only slightly. Loans fell about 1 percent between March and June at St. Louis-based banks.

It’s not clear how much of that results from reluctance to lend, as opposed to fewer customers wanting to borrow.

Whether a business suffers from banker tight-fistedness depends both on the state of both the business and the bank.

A weak bank may turn away even good borrowers as it tries to rebuild its capital base. “I’ve heard local bankers on the street say, ‘We’re not making loans,’” said Tom Hough, CEO of Carrollton Bank.

Other banks may decide they have too many loans in a certain area — commercial real estate for instance — so even good projects get a thumbs down.

In good times, business customers head for the banks that offer the best interest rates, said Hough. Now, they’re looking at the health of the bank. A weak bank has to cut business credit lines and won’t renew loans, which is bad news for their business customers.

Weakness means much less for a bank’s depositors, who are protected by federal deposit

insurance for amounts up to \$250,000. In fact, weak banks tend to offer higher deposit rates.

While singing the bad-loan blues, bankers are also bemoaning a special assessment imposed by the FDIC to rebuild the deposit insurance fund. At First National Bank, for instance, the \$1.4 million charge equaled about 10 percent of pre-tax profits for the first half of the year.

President Rick Bagy complains that strong banks are being dunned to redeem the sins of the weak. Bankers fear the assessment won’t be the last this year.

Bankers are happy over another development — lower interest on deposits. A one-year certificate of deposit pays about 1.8 percent on average, compared to 2.2 percent in February, according to Bankrate.com. Lower deposit rates lift bank profits.

The St. Louis banking market is dominated by big banks headquartered elsewhere, and some of them are on the sick list.

The biggest player here, Minneapolis-based U.S. Bank, has 18 percent of the local deposit market according to 2008 figures, and is not considered troubled.

Second-ranked Bank of America and fifth-ranked Regions bank have significant problems, but are considered too big to fail. The federal government would not let them collapse because of the ripple effect on the nation’s financial system.

Third-ranked Southwest Bank is healthy and profitable on its own, but it is owned by Marshall & Ilsley, a Milwaukee banking company that lost \$300 million in the first half of the year.