

Meltdown likely to lead to fewer banks, higher rates

BY GREG EDWARDS
gedwards@bizjournals.com

As a result of the economic collapse nationally, expect to see fewer banks in St. Louis, fewer loans made, higher loan rates charged and less homeownership.

But you'll probably get a higher rate on your deposits, and you won't have as many credit card companies bugging you.

"Massive consolidation is ahead," in the banking industry, Peter deSilva, president and chief operating officer of UMB, said in an Oct. 30 speech at Saint Louis University explaining the meltdown and its likely effects. "We won't be like Canada, with six banks, but we'll be nowhere near the current 8,000 banks."

Big-bank consolidation is well under way, with, for example, PNC buying National City and Wells Fargo & Co. taking over Wachovia Bank.

"At the large-bank end, consolidation has happened," said Tom Hough, chief executive of Carrollton Bank. "We now have six banking giants each with more than \$1 trillion in assets," including investment banks Goldman Sachs and Morgan Stanley, which have applied to be commercial banks. "Number seven, U.S. Bank, is under \$250 billion in assets."

It's anybody's guess as to which banks will consolidate in St. Louis, but bankers would welcome less competition. St. Louis ranked as the second most-competitive banking market in the U.S., behind Chicago, in a study last year of market con-



BRIAN CASSIDY

Tom Hough said it will be much tougher for startup banks to get charters.

centration in the 25 largest metropolitan areas.

The latest numbers from the Federal Deposit Insurance Corp. (FDIC) show the region has 145 banks. In comparison, Cincinnati has 85, and there are 73 in Tampa, Fla.

"We're overbanked anyway," said Gary Douglass, chief executive of Pulaski Bank. "A little thinning of the ranks, especially of banks that are weak, wouldn't be all bad."

In addition, new banks are less likely to open, as they did with abandon in recent

years, with seven startups launching in St. Louis in 2005 and 2006.

"In the last 10 or 15 years, if you had the capital, the regulatory authorities were pretty easy about issuing bank charters," Hough said. That flow of capital is gone, and regulation will be much tighter, he said.

Some consolidation, like the sales of National City and Wachovia Bank, will be done at the urging of the FDIC, as it works to minimize bank failures. "I think the FDIC would be very happy if they had fewer charters to examine," said Dan Hogan, a banking consultant and former bank examiner.

Borrowers will find it harder to get loans as lenders tighten credit standards and demand larger down payments. Pulaski Bank, for example, has been demanding more collateral and personal guarantees, Douglass said.

"At most banks, underwriting standards had become way too loose," said Jack Schreiber, St. Louis president of Commerce Bank.

"We're getting back to the lending standards we had 10 or 15 years ago," said Jim Wagner, chief executive of Parkside Financial Bank & Trust in Clayton.

More stringent standards will result in fewer loans. "Fewer businesses will open and fewer will expand," said Vince Coleman, president and chief executive of Southern Commercial Bank. "It will slow things down, but that's not necessarily a bad thing."

Loan rates have been heading higher, to cover both the risk and the higher cost of deposits that banks are paying because of competition. Carrollton Bank, for example, has

increased its deposit rates about 25 basis points across the board, Hough said.

Triad Bank in Frontenac has deliberately slowed its loan growth, concentrating instead on profitability. "By not growing our loan portfolio as aggressively, we don't have to put in as much for loan loss reserve, which increases profits on a monthly basis," said Jim Regna, chief executive.



PETER deSILVA

President and chief operating officer of UMB

Even those who aren't looking to borrow will see changes, at least one of them welcome — fewer credit-card offers in the mail. "The days of 25 credit card companies sending you applications to just sign up are over," deSilva said.

Homeownership throughout the country was boosted artificially by government programs designed to increase the percentage of American homeowners, deSilva said.

"In 1994, when homeownership was 64 percent, Congress set a goal of 67.5 percent homeownership by 2000," he said. "This goal, though noble, gave permission to the industry to get endlessly creative, leading to lax underwriting standards."

By 2006, 69 percent of Americans had moved into their own homes.