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## Area banks fare better than national average

### Local lenders avoid risky mortgages

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**W**hen it comes to banks, bigger is not always better, Telegraph area community bankers say, so their customers don't have to worry about the sub-prime mortgage mess that is plaguing huge investment banks based on Wall Street.

"We didn't originate them, so we've not been affected whatever," said Dale Blachford, president of Liberty Bank.

"Our bank has stuck to underwriting conventional mortgage loans," said John Keller of Carrollton Bank.

"Absolutely none," said Larry Franklin, chief executive officer of Cornerstone Bank, part of a local four-bank holding company, when asked whether his bank issued any sub-prime mortgages.

"You're not going to find any community bank that has been involved in any sub-prime mortgages, or sub-anything type of lending," he said.

Keller said the banks involved in sub-prime lending - and suffering losses as a result - would package many of the high-risk loans into securities, then hook investors into buying those securities. The sub-prime loans were issued at "teaser" rates, but many borrowers were unable to make their monthly payments when the low teaser rates went into the double digits.

Nervousness over the credit

markets has hampered liquidity and made stock investors and traders jittery over the health of the economy.

Most recently, the Federal Reserve Board engineered a bailout of the giant Bear Stearns investment firm, known as one of the most aggressive - some would say greedy - companies of its kind.

In an unprecedented move last week, the Federal Reserve helped arrange J.P. Morgan Chase's acquisition of the troubled investment firm for \$2 a share, likely saving Bear Stearns from bankruptcy.

The deal made the stock market even more nervous over the health of the economy and touched off a dramatic skid in stock prices, followed by a bounce as a result of the Fed cutting interest rates once again.

A sub-prime mortgage is a home loan given to a borrower with poor credit. The lender is taking a bigger risk, so the interest rate is higher. Loans that have adjustable or "balloon" rates may start off with manageable monthly payments, but the subsequent interest rates are so high, the borrower may be facing a huge increase in cost without the income to pay it.

Area lawyers said those high-risk loans often carried higher closing costs, which were blended in with the principal of the loan, leading to even higher monthly payments. Some people in the Telegraph area took out sub-prime

loans from large national chains. Some of those national chains already have gone under and closed their local offices.

Some banks were lending money without doing an accurate appraisal of the property and without documenting the income of the borrower.

"I had one customer come to me whose interest rate is set to go up to 10.8 percent, and that means a \$300-a-month increase in monthly payment, and they were already budgeted to the max," said Steve Fuehne, vice president for home mortgage lending at the Bank of Edwardsville, in an interview last September.

Particularly hard-hit were areas of the United States where the real estate markets once were hot, and lenders and borrowers were counting on soaring prices to sustain the market for risky loans.

Locally owned and operated banks are much more conservatively managed because they are in it for the long term, and the top owners usually are local people interested in keeping the community strong, along with the banks they own.

"We're interested in protecting the shareholder and the customer," Fuehne said. "We want to be competitive, but we want to lend at a fair rate. We're not out to gouge anyone or get rich on any one person."

Banks such as his make sure they have more than sufficient capital to back up the loans they

make, and that adds up to safety, Franklin said. Cornerstone Bank is a locally owned bank owned by a holding company that started in Carlinville. The holding company owns four local banks, each with an individual charter. Board members are members of the community, Keller said.

Blachford cautioned that Telegraph area residents will not be unaffected by the sub-prime meltdown because this area is a small part of the overall national economy and cannot escape the effects of a liquidity crisis.

A tight national credit market can make it tough to get any kind of loan and can have a chilling effect on economic activity across the board, he cautioned.