

## A window opens

Credit problems always develop in an economic downturn. If every bank advanced money only to those borrowers who they felt would remain unscathed through the worst-case scenario, the economy would shrink to levels of 30 years ago.

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On the other hand, credit problems—or more accurately, the practices that lead to credit problems—also contribute to a downturn. Exactly where the line of demarcation falls between effect and cause is probably unknowable.

Bankers do know, however, that when you combine low-cost funds, an influx of de novo banks, new branches, and nonbank lenders with a booming local or regional economy, the results are inevitable—pricing pressure, lower standards, squeezed margins, and trouble.

Some would describe this as the normal swings of the business cycle. That may be, but in every cycle a large number of banks opt out of the more extreme reaches of the pendulum swing, though they may still be affected by it.

In speaking with a half dozen community bankers around the country for this month's article on net interest margins (p. 26), there was a definite sense of a return to normalcy. Reduced competition has led to higher loan pricing and improved lending standards, both of which should benefit traditional banks.

As John Klebba, chairman and president of Legends Bank, Linn, Mo., observed, the fallout from the financial crisis and the recession "will bring a much healthier competitive environment when the economy returns. It will bring a return to old-fashioned banking."

This trend will not only permit better margins, but opens up possibilities for a return to lines of business that the more traditional banks mostly abandoned years ago—auto lending, for example.

Not everyone is sanguine about a return of community banks to consumer credit, as outlined in this month's cover story (p. 18), but many suggest that the door that had been shut may have opened—at least for a while.

The irony is that less competition—heresy in a free-market economy—in some ways is beneficial. For sure it means that loan customers are paying more for credit right now. But they're mostly happy to do so if it means that it's now available again.

Besides, lower prices—for anything—are not always a bargain, any more than higher investment returns are always a blessing. That's why such truisms as "The higher the return, the higher the risk" and "You get what you pay for" are still around.

In last month's cover story, ABA's new Chairman, Arthur Johnson, indicated his new favorite term is "sustainable." He wasn't talking about carbon dioxide emissions, but about a level of economic growth that can be sustained over time.

An individual company can pursue that goal, and if enough companies do that, an industry can achieve the sort of balanced growth that would benefit all.

Is that likely to happen? It already is happening. The question really is, how long will it last? The government is attempting to legislate that it lasts, but that cannot succeed. So then, how do individual banks, once the collective memory of bad decisions fades, compete successfully as the forces of competition begin the perennial migration toward "unhealthy" competition?

Same as always. You figure out what you can, or will, do. If the rules of the game become too loose for comfort, you move on. —