EAR TO THE GROUND FINDS A MIXED STORY AMONG COMMUNITY BANKERS

Pockets here and there happier than the "norm"

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By Steve Cocheo, executive editor

Sometimes the best ideas stand right in front of you.

A Texas banker recently described how his markets had been doing well, compared to those many other community bankers have been facing. His bank operates in one of the pockets around the country where the economic angst other small banks face hasn't been felt. But that doesn't mean such banks sit there immune from other factors facing the industry.

"We have quit purchasing bonds," this banker told a group of fellow executives. The travails of the markets got him to thinking about his previous policies, and he was suddenly struck by the irony of what he'd been doing.

The bank typically sold the mortgages it made to the secondary market, and instead held mortgage-backed securities. Now, the strategy has changed completely.

The bank no longer buys mortgage-backeds. Instead of investing in the securities, the banker explained, management cherry picks the mortgages made by its own officers, and holds back the very best production.

"I know who underwrote them," says the banker, with more confidence in his own people than a long string of strangers behind a securitization. And, in the process, he's picked up 200 basis points in yield.

There are lots of little stories out there these days, as bankers deal with the hand they have been dealt with, locally. Sometimes, in seeking the "Big Story," journalists forget that community banking, like the cliché about politics, is all local.

We've been at various banker meetings in recent months, and been hearing from community bankers. Here are some individual stories we've been hearing, and then some where the tale has companions around the country.

- • Remodeling, by divine intervention. A farm state banker tells the story of how a higher authority found a way to help revitalize his farm community's downtown. Funds just weren't available and politics were such that they couldn't be broken loose to get things going again. But then a tornado hit, destroying a good third of the community's buildings, most of them among the tired downtown. The resulting insurance funds have new buildings, new roofs, and more going up, giving employment a shot in the arm and the community a facelift that otherwise wouldn't have materialized.

- • "First in line? Suuuure." An eastern state bank executive has been reexamining the bank's branch network for cost-cutting opportunities. The big one: Consolidate two downtown branches into one, located somewhere between the two.

As it happens, even in the bank's relatively slow local commercial real estate market, demand for the old branches has been strong. In one case a would-be buyer got wind of the planned sale and asked that his group be given priority. The relieved banking executive, having been worried about being able to sell at all when the whole thing began, was more than willing to give the investor "priority."

Here and there around the country, from New York City to rural towns in states like Pennsylvania to suburbia, we've seen restaurants open in old banking offices. Among other things, investors seem to think guests like the ideal of dining in an old vault.

Tight economies and slack loan demand

While the Texan whose story was told at the start of this column has seen healthy demand for business credit, that's something many other community bankers aren't seeing.

"We are dead in the water on the business development side," says a Southwestern banker. "We have no loan demand to speak of."

This banker blamed it on a lack of confidence on Main Street. "Hiring is weak," he reports. "Businesses are hunkered down."

The only bright spot, if one can call it that, is commercial real estate. And that is only a positive in this sense: After sliding down in the wake of the crisis, commercial real estate is picking up again because of fire sale pricing.

"Money is coming out of closets, after things have been dead for three years," the banker explains.

Other bankers don't have even that mixed news to cheer about. A community banker out of the Pacific Northwest says with state unemployment nearing 10%, it is difficult to see where the jobs will come from that will get things moving again.

Says a community bank executive with operations in multiple states: "I don't hear about people wanting to deal in creativity. All I hear talk about is cost-cutting."

He adds: "People don't want to invest because people don't know what's coming."

Bright spot in the South

A North Carolina banker reports some unusual good news on the international front. His state was once known for quality furniture and textiles, but much of that business--and the jobs producing the goods--went away. Cheap Asian labor made it impossible for local companies to compete.

However, this executive reports that a comeback has started to build. "Very slowly, business is coming back," he says.

The reason: Chinese and Vietnamese plants and mills have become overwhelmed with demand, which has slowed down their delivery to wholesale markets.

"Retailers want the assurance of delivery," the banker says, "and they are willing to pay a little more money to get it."

"I have some C&I customers," says the banker, "who are having their best times in years."

Diversity doesn't necessarily help

Both a New England banker and a banker from the deep South speak of their local timber industries as being moribund. Both serve areas that have backup industries, so to speak, but those aren't faring much better.

The southern banker says the chicken farmers in his state have watched corn prices rise steadily, so their returns on their livestock aren't as high as they used to be.

The New Englander notes that tourism, his state's other big industry besides timber, has suffered in the wake of high gas prices and unemployment and underemployment. The only bright spot this banker can report is the departure of some big banks from his markets. With loan demand otherwise nearly nil, he says, his bank has the opportunity to refinance commercial borrowers whose big-bank lenders have shown them the door as they pull out of the market.

Irony in Ohio

An Ohio banker speaks of a sort-of "Gold Rush" in his market, where some folks have had a windfall as energy companies have bought up gas drilling rights. The corporations cut them large checks, and the customers want to put their money in the bank.

"This is fantastic for deposit growth," says the banker. The problem is, lack of deposits hasn't been an issue for the bank or its competitors.

"We don't have anything to do with the money," the CEO says. "In past years, this would have been fantastic. "

Slack demand, and poor credit quality where there is demand, are part of the problem. But that's not all.

Merely taking the deposits from these fortunate customers becomes a cost issue, the banker explains. FDIC assessments for those deposits drain potential profits from the bank, at a time when opportunities to make some profits with this raw material are slimmer.

Consolidation talk

Bankers and state bankers association representatives frequently speculate these days about industry consolidation.

One banking executive told us about a multi-bank merger he'd heard strong rumors of. Each of the players was independent, he said, and the leaders and boards of all of them had decided they'd had all the fun they could stand. With Dodd-Frank and other compliance challenges looming, they believed becoming one much-larger bank suited them better than going it alone.

Executives from other states speak of major consolidation in the cards. One predicts that the number of community banks in his state could drop by half.

In a related trend, one western community banker says good compliance officers have become gold--literally. Their skills grow so essential to community banks that talented ones enjoy a seller's market.

A Midwestern community banker plans to be a survivor-his bank has been doing well in a decent market through the recession. In fact, as he hears of banks where management and board leans towards sale, he would like to be a buyer, and grow his bank.

But in his state, a major independent banking company has a team of in-house merger specialists prowling the state, calling those on the fence, and more. He doesn't see much chance competing with this willing buyer's talented bank scouts, their access to information, and their employer's deeper pockets.

This banker refuses to become discouraged about consolidation, however.

"I keep hearing how we community banks are not going to last," he says. "Well, by God, I'm going to go out fighting!"

Blog Bio:

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