

## DODD, FRANK, AND STRESSED FISH

• Or, if you prefer, Maryland maple syrup, buckwheat pancakes, and regulatory burdens

\* \* \*

By Steve Cocheo, executive editor

It's the start of my second day visiting community banker Bill Grant and his staff in Oakland, Md., and we're sitting in an eatery that would be trendy in New York or Washington, but in Oakland is just part of life: Englander's. (You'll be reading more about Bill and his bank, First United, in our February 2012 cover story.)

Englander's started out as a pharmacy, but some time ago the owner sold the drugs business to a CVS that came to town, and which sits across from a Walgreens. It was an old-fashioned small-town drug store, when we called them that instead of "pharmacies," so it included a lunch counter in the back. When the pharmacy and the assorted consumer goods pulled out, that left a lot of space. Now Englander's is a combination of two things: an antiques mart and a breakfast and lunch counter, which locals call "Dottie's."

A bit of local flavor(s) with Dodd-Frank on the side

Bill Grant has insisted that I have to sample the sourdough buckwheat pancakes for which Dottie's is famous before I leave, so I order that and eggs and bacon. When they come, instead of letting me reach for the table syrup, Bill brandishes a tiny jug of the good stuff, famous Garrett County Maple syrup. "It takes 50 gallons of tree sap to make a gallon of this," Bill explains, and, indeed, the syrup is as good as any I've had in Maine. (The night before, Bill had set aside a large jug but his Golden Doodle dog took a liking to it and so we have his backup instead.)

Read the February 2012 cover story profile of Grant, who is chairman and CEO at First United Bank, Oakland, Md., and current chairman of ABA's Community Bankers Council, in the Digital Magazine.

Bill is chairman, CEO, and president of First United Corp., a \$1.4 billion-assets holding company that owns First United Bank, which does business in both western Maryland and eastern West Virginia. Joining us this morning are Larry Kessel, vice-president and commercial lending officer, and Aneta Bever, commercial loan officer, both from over on the West Virginia side of First United's operations.

Now, a meeting like this is meat to me. (Putting aside Dottie's bacon and famous sausage--in rural Maryland, they don't ask what you want for sides, they ask, "What meat?")

The thing I especially like about sitting down in the field with real bankers who work in real places with real customers, is, no pun intended, the reality of it. Sometimes national surveys, statements by national associations, and talking to Washington leaders has a way of homogenizing everything into one broad view of the world.

Sitting down at Dottie's, I'm hearing about a very narrow, specific slice, the banking and business world as seen by Aneta, Larry, and Bill, their boss.

The bankers on Bill's team that I have been meeting over the last day or so have been working on coping with Dodd-Frank and other post-crisis legislation and we've talked about how unpopular that is.

When I met with the bank's senior staff yesterday, Jason Rush, the senior vice-president and director of operations, made a telling comment about Dodd-Frank when I asked the group about it.

Everyone in the bank owns a piece of it, but the impact goes beyond reading fine print and restructuring procedures. Dodd-Frank is having an impact on progress.

"Our technology providers are spending all of their development dollars on what Dodd-Frank and the like is forcing banks to do," says Rush. "As a result, there's no room for innovation."

Bill Grant noted in that meeting that pre-Dodd-Frank, his bank spent almost \$3 million a year on compliance costs of one kind or another.

So how much more will Dodd-Frank cost?

The bankers shudder to even project.

"It's easier to say, 'A lot,'" allows Jason. They all seem to agree that that hurts less.

## Uncertainty is bad for business and the digestion

Over breakfast today, we also talk about Dodd-Frank, and the bankers acknowledge that, yes, it is getting in their hair. The news of Barney Frank's decision not to run for another term is still reverberating through the industry, as is the possibility that Maxine Waters will succeed him as the leading Democrat on the House Financial Services Committee.

The bankers worry that the Dodd-Frank legacy will outlive the two named creators of the law, and already there is concern that between that and overreaction by examiners, some customers will suffer unnecessarily.

But over buckwheat cakes and eggs, the conversation gets into broader Washington and regulatory issues that also have taken a toll on bankers and their customers.

First United's headquarters is in extreme western Maryland, which, if you look on the map, would be part of West Virginia but for the presence of the headwaters of the Potomac. (I joke at one point in my visit that Bill's part of the country sends Washington pure mountain water, and Washington sends back toxic regulation. Good-natured Bill laughs, though the mention of regulation also furrows his brow.)

I ask Larry and Aneta what is on the minds of their commercial customers these days and they say it is the uncertainty of everything that is hurting them. Government regulation is part of this.

Larry, who works with borrowers in West Virginia but ranges as far as parts of Pennsylvania, says one of his customers decided he ought to start getting his ducks in a row for the Obama health care law, and engaged an accounting firm to help him come up with a price tag;

"Two and a half months later, they got back to him," says Larry. "They said, 'We just can't tell you'."

Business is slow and down for most everyone but farmers. Corn and beans and cattle prices are strong, so area farmers have been having a decent year. But typically other businesses are not.

The bankers find that larger companies, not seeing business from the larger buyers that they usually serve, have tuned their radar towards smaller jobs. As a result, the smaller companies that served smaller customers are not just chasing less business among themselves, but having to battle the bigger players to get it. Profit isn't even a factor all the time. Larry explains that some large construction firms are bidding for the small work just to have something to keep their crews busy, holding onto workers for as long as they can, hoping things come back.

As a result, margins are thinner for everyone--or nonexistent.

Companies with cash, completely in the dark about the future, aren't borrowing to build things up. Instead, they are reducing their debt, says Larry, "instead of being able to go out and create jobs."

As a result, Larry continues, bankers have started to see even rougher competition for what business there is.

"There's extremely high competition for higher credit quality commercial customers," says Larry. "They are in the driver's seat, and so they can get just about anything they want now." By contrast, startup businesses can't qualify for credit under current regulatory conditions. Larry says they can rarely show any historical data that an examiner would feel comfortable with.

Government help that doesn't help

Government guarantee programs haven't been much help with such prospective borrowers, Larry allows. The standards are so high that newcomers with fresh ideas can't make it over the hurdles.

"The criteria they set up take customers out of the mix that could most benefit from the programs," he explains. Nonetheless, he says he will always run a newcomer's proposal through the various guaranteed loan programs the bank has access to before turning anyone down who can't make the bank's credit standards without aid.

Bill and Larry share a wish: They'd like to see every bank examiner have the opportunity to work in a bank in some fashion, just to see life on the other side of the fence.

This, they say, could lead to better understanding of borrower qualification issues, and more.

The fact that bankers sometimes ask examiners for guidance and are told, "I can't tell you what to do, I can just tell you if you've got it right after you do it," irks many bankers.

Thoughts of that got Larry telling a sort-of fish story.

You hear those in the country, but this one is very different, and the fish are small.

A farmer that Larry knows has a creek going through his acreage. He decided he ought to build a little bridge over the creek, and, since it ran past his land and into other folk's property, he knew he'd have to meet state environmental standards.

The farmer made repeated calls to the state authorities for guidance of any kind, Larry says, so he could do the job right, in compliance with state rules. Call after call was ignored. Finally, the farmer studied up and tried to start on his own.

It was simple little bridge, calling for two concrete footings to be poured on one side and two on the other. The farmer boxed off the prepared concrete forms so runoff into the creek would be minimized.

Work began, and, out of nowhere, a state environmental truck rolls up and out pops a state inspector. As Larry tells it, the inspector hops out, brushes past the farmer, and peers into the creek.

He turns to the farmer and points at the creek.

"Those minnows aren't dead," he tells the farmer, "but they sure look stressed."

"We're going to have to do something about this," he added.

What does a stressed minnow look like? Larry asks, rhetorically. I allow that the only stressed minnow I've ever seen was on a hook, being used for live bait, and being chased by a larger fish.

About then the waitress came, and Bill Grant paid for our breakfasts and it was time to head over to the bank for a meeting.

I never did find out what the state inspector decided to do about the stressed fish.

But I did form some ideas on what the government could do for stressed bankers, and stressed bank customers.