Oh, those boring banks

Boring is popular, right now.

Whether you’re talking investments, cars, or real estate deals, “slick,” “glitzy,” “high-powered” are all in the doghouse for the moment. They’ll be back, of course. But for now they’re in hiding.

“Boring” isn’t really boring, however. The dictionary will tell you it means “not interesting, tedious.” In conversations with two bankers recently, both used the word to describe their approach to business and especially to the commercial loans they make. But their operations are the opposite of tedious and their results are very interesting to their shareholders.

Commercial real estate is the primary focus of both banks. But rather than scrapping for a piece of the latest Donald Trump-branded tower, they get excited by a three-story, multi-family apartment building that nobody notices except the people who live there, the owner, and his banker. To these two bankers it might as well be gold—it cash flows. Trump buildings change skylines. Boring little projects change income statements—for the better. There’s a place for both (maybe) but it does seem that the canny banker often takes a pass on the high-profile stuff and leaves it for the masters of the universe to fight over.

These two banks do business in and around New York City. But far from being rolled over by the “big boys,” they are thriving—even, or rather, especially, during the current chaotic conditions. Both are also public companies.

One is Bank of Smithtown, headed by Brad Rock, who just completed his term as ABA chairman. Readers of our profile of him in October 2008 may recall that his bank has a very strong credit culture and a bank-wide incentive compensation plan.

The other bank is Signature Bank, which is profiled in the article on innovation in this issue (p. 26). CEO Joe DePaolo takes a somewhat different approach to credit management from many bankers—separating business development from underwriting—but also uses a carefully tailored incentive compensation plan. There are many differences between the two institutions, but both are very strong, conservative, profitable, and innovative banks. There are many others like them around the country.

And that points to a silver lining to the current mess, as described by ABA President Ed Yingling in his speech last month at the ABA Annual Convention. He said, “Good old traditional banking is back in fashion,” and that “going forward, integrity, good judgment, and capital—banker traits—will be prized.”

Indeed, this is already happening. Signature Bank raised $140 million in an oversubscribed public offering this September, during the height of the credit market meltdown.

The point is, good banking isn’t really boring at all. It’s actually pretty exciting, or at least satisfying, for the people engaged in it, and can be highly attractive and rewarding for the more astute investors.

The majority of banks that are well run and well capitalized—even without any TARP money—are in a good position to not only hold their own, but regain share from money market funds and their ally, the commercial paper market; from unregulated mortgage brokers and their allies, the investment banks; and maybe even from nonbank auto lenders.

The current recession will undoubtedly strain the balance sheets of many banks, causing some of the weaker ones to fail or be merged. But as long as Washington doesn’t hobble the strong ones with onerous new regulations, they can look forward to a brighter future.

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