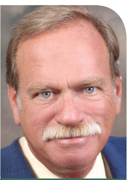
Georgia banks: Bankers' wish list for regulators

In its 2009 Second Quarter Update report, the Georgia Bankers Association reported the concerns of bankers with respect to existing regulatory practices. The GBA listed several areas in which banks are seeking greater flexibility from regulators. Three suggestions would give bankers time to weather the current economic storm.

In earlier articles in this series, the picture clearly emerges that Georgia banks are under stress and facing the most significant challenges in a generation.



Edward H. Sibbald

Yet, only two years ago, Georgia banks enjoyed record profitability and the lowest levels of loan losses and nonperforming loans in more than a decade. What happened and what can be done?

Public opinion weighs against "bank bailouts" — giving taxpayer money to support excessive risk-taking by banks "too big to fail"— but everyone needs a better understanding of how Georgia banks are different. They face challenges now because of past support and commitments to their local markets.

The commitment can be measured in net loan growth — net after loan repayments and charge-offs — during the past 10 years. In southeastern Georgia, 38 banks had net loan growth of $5.8 billion since 1999.

The 10 banks headquartered in Chatham, Effingham, Bryan and Bulloch counties accounted for $2.6 billion, a 500 percent increase over 1999 levels.

This loan growth supported working-capital requirements of small- and mid-size businesses, financed commercial and residential real estate development and funded the expansion and modernization of the local manufacturing base.

The financing supported job creation, increased overall income levels, expanded the tax base and enhanced Georgians' quality of life.

Of course, the recession has wreaked havoc on many borrowers, such as residential developers, store owners and retail landlords.

The collapse in the residential and commercial real estate markets only worsened the situation, as collateral supporting these loans lost value, requiring banks to absorb impairment losses against existing loans.

During this period, bank regulators have been increasingly proactive, raising the bar in terms of classifying loans as substandard, as well as increasing capital and liquidity requirements.

As a result, the Atlanta Journal-Constitution estimated that about 100 banks in Georgia — several in the southeastern region — face some form of administrative action by their regulators.

Some analysts and bankers believe local regulators are taking marching orders from Washington to "thin the herd," believing that the large number of small banks in Georgia and excessive competition are key contributors to the banks' problems.

Others believe the market has changed dramatically in the past 18 months and current regulatory reviews and actions reflect the deterioration in banks' loan portfolios.

Whatever the motives or reasons, regulators have taken more aggressive postures with weak banks and otherwise healthy banks with large real estate concentrations in their loan portfolios. While most Georgia bankers understand the increased scrutiny, many believe certain regulatory practices need to be reviewed to provide greater flexibility and time for the banks to address current issues.

Weathering the storm

In its 2009 Second Quarter Update report, the Georgia Bankers Association, the primary trade association for banks, reported the concerns of bankers with respect to existing regulatory practices. The GBA listed several areas in which banks are seeking greater flexibility from regulators.

Many of the items were important technical items related to accounting treatments and appraisal methodologies, but three suggestions would give bankers time to weather the current economic storm.

First, banks have increased loss reserves to accommodate increased nonperforming and defaulted loans. However, banks only can include 1.25 percent of risk-weighted assets under existing calculations for regulatory capital guidelines.

In effect, about $1.9 billion in capital is not being included in equity ratios for regulatory purposes. This cap needs to be doubled or removed completely.

Second, regulators are requiring banks under administrative agreements to maintain equity ratios well above regulatory guidelines or to raise additional capital within short time frames such as 90 days. This places an undue burden on banks in current conditions in which investor capital for community banks is limited.

Third, regulators are requiring banks to reduce the amount of brokered deposits as a source of funding. Requirements to repay and not renew brokered deposits upon maturity, except by written waiver in limited cases, may create a liquidity crisis for some banks.

Flexibility in this requirement is needed to allow banks to renew (not increase) existing brokered deposits upon maturity or at least provide a reasonable time period to wind down this source of funding.

Regulators' reconsideration of these three practices would be a positive step in providing banks with time and flexibility to work through current issues and regain their strength as markets rebound.

Otherwise, weakened banks will continue to fail, and banks with proven performance, but facing loan-quality problems, will have more difficult hurdles to surmount.

In their time of need, regulators should recognize and support the commitment banks have made to their communities during the past 10 years.

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THE STATE OF GEORGIA'S BANKS

This is the last of a four-part series:

Sept. 30: The performance of Georgia banks year-to-date in 2009 in context of issues and challenges facing banks nationwide.

Oct. 7: Banks in coastal Georgia.

Oct. 14: The unintended adverse consequences of current regulatory and Treasury Department initiatives on community banks in Georgia.

TODAY: Bankers' suggestions for modifying several current regulatory practices.

tips from SCORE

Neglecting marketing? That's a big mistake.

If you are in business, you want to stay in business and see your company grow. Marketing is an important effort in gaining prospect attention, building product or service demand and winning customers.

Your marketing effort is the total of the sales, pricing, promotional and advertising efforts implemented to promote the flow of goods or services from your business to the consumer. Marketing includes having the right merchandise or service, selecting the right location, enacting effective sales programs and promoting your company and its wares to the buying public.

It's easy for the small-business owner to find excuses for neglecting marketing. Most small businesses operate on a no-frills budget, and many owners consider marketing as something they can't afford or a soft expense. However, without marketing, how do you propose to gain those much-needed customers that mean sales?

If you do not effectively market your company, brand, image and products or services, you won't be in business for long.

Marketing is an investment in future sales. As an entrepreneur, you must always be looking into the future and to the next sale.

Customers need to be aware of your company and what it offers. Keep in mind the four P's of marketing — product, promotion, price and place. These four elements need to work in tandem to generate consumer interest and trigger the buying response in your audience.

Develop an annual marketing plan within your overall business plan.

Figure out when you need to expend resources on a special price promotion, new product launch or advertising awareness campaign. Other aspects of your promotion may be outdoor signs, direct mail pieces, joint promotions or product brochures.

Service Corps of Retired Executives was formed in 1964 as a nonprofit association dedicated to entrepreneur education and the formation growth and success of small businesses. Contact the Savannah chapter at 912-652-4335. For information go to www.scoresav.org.