

Community Banks in Coastal Georgia
2008 in Review

by Edward H. Sibbald

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Here we go again! Another story about the banking industry and its financial problems. I would not blame anyone reading this column to have this reaction. And why not! The newspaper headlines about the financial crisis—from the largest and most powerful with a national readership to the small, local community paper—command your attention, even when you try to avoid them. Turn on the television and surfing the channels will expose to you to an increasing amount of business news channels—all thoroughly documenting the \$14-16 trillion loss of paper wealth in the stock markets and real estate values.

But there is another side to the story. Lost in the tsunami of bad news, reckless risk taking, fraud and executive compensation excesses, local and regional community banks continue to perform—lending money to small businesses, providing risk free investment alternatives in the form of FDIC-insured deposits. More focused geographically, community and regional banks in coastal Georgia are doing reasonably well.

A few weeks ago, Mary Carr Mayle wrote an excellent article about community banking in coastal Georgia. The themes of her article were supported by quotes from key local bankers, especially in the area of not seeking federal assistance under the Troubled Asset Relief Program (TARP). As always, her article was concise, well written and informative.

Let's add some dimensions to Mary's article, specifically in terms of the numbers...the financial results. During the past three years, the Center for Excellence in Financial Services in the College of Business Administration at Georgia Southern University has been tracking the performance of banks in coastal Georgia. This group - we call the Georgia Southeastern Region Community Bank group- consists of 38 currently ranging in asset size from \$48 million to almost \$1 billion. It roughly corresponds to the regional or divisional group used by the Georgia Bankers Association and covers an area extending from Jefferson County, northwest of Chatham county, due south to the Florida border and inland as

far as Toombs County to capture the Vidalia market.

Let's look at three areas: performance in 2008, comparisons to regional groups elsewhere in the state of Georgia and overall lending activity.

First of all, 2008 was not a good year for most banks in Georgia. The banks in coastal Georgia had its worst year in more than a decade. Net income decreased 50 percent, and net interest margins dropped almost 1.00 percent, while loan delinquencies and losses doubled. In isolation, the trend appears troublesome. Yet in context of banks throughout Georgia, a different picture emerges.

The 38 banks in coastal Georgia generated a .53 percent return on average assets and slightly less than a 6.00 percent return on equity. Yet 46 percent of the 353 banks in Georgia were unprofitable in 2008 and generated negative returns on assets and equity. Seven banks failed during the past year, the most recent one being Freedom Bank in Commerce last week. Most of these failures were banks operating within a 75-100 mile radius of Atlanta.

Another comparison is to look at how the coastal regional group compared to the other 12 geographic groups defined by the Georgia Bankers Association, the coastal Georgia bank group ranked in the top 10 or top 20 percent of all groups in terms of key financial metrics.

Third, let's look at the business of banking. The great myth is that banks are not lending money. The banks in coastal Georgia increased loans by almost 10 percent in 2008 and in the face of the worst economic quarter in almost a generation, increased the outstanding amount of loans in the fourth quarter of 2008.

There is no doubt that 2009 will be another challenging year for the Georgia economy and its banking industry. Georgia ranks ninth highest among the states in unemployment, and commercial real estate development is a primary component of its economic base. Mirroring its environment, Georgia banks have the third largest exposure to acquisition, development and construction loans as a percentage of capital. The continued weakness and loan defaults in this sector are expected to result in more bank failures in Georgia this year. Although the banks in coastal Georgia largely have been sheltered from some of the more speculative elements surrounding the Atlanta metropolitan area, evidence suggests that local banks' profitability will still be challenged by tight margins and increasing loan losses in 2009.