

# CBJ: Banking—Only the strong survive

By Tasha Kates

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After a year in which more than 130 institutions failed and others were ordered to stop lending until regulators could assure their stability, perhaps no sector of the economy entered 2010 more in the spotlight than banking.

In 2008, 25 banks failed across the country. In 2009, more than 133 banks failed. So far, in 2010, 26 banks have gone under.

Under simultaneous pressure to increase lending but also to reduce risk to help the economy regain its footing, the banking sector limped into 2010 after a brutal period that saw banks fold, merge, get propped up by taxpayer dollars and take the brunt of criticism for the subprime lending collapse.

Now, with the Federal Deposit Insurance Corporation looking over their shoulders, smaller banks face tighter restrictions on loans at a time when larger banks are seeking profits by providing fewer loans for larger amounts to larger companies rather than more loans for less money to smaller businesses.

“The idea of loans going sour is a very real threat in banking and that has regulators very wary, as well as bankers,” said Gregory Fairchild, associate professor of business administration at the Darden Graduate School of Business Administration at the University of Virginia.

Fairchild said bankers are “very sensitive to any potential losses.”

At Virginia National Bank, CEO and President Glenn Rust said the number of accounts increased in 2009. Rust said the public’s impression of big banks as some began failing may have contributed to the local bank’s account growth.

“We did our part of looking like a very safe and secure bank,” Rust said. “I think what people saw was that message of leadership and a bank that was prudently lending. We did not back off on charitable giving. We didn’t take TARP.”

Fairchild said the losses, bank failures and bank bailouts have hit the FDIC hard. The organization guarantees consumer deposits and accounts in banks that go under.

“They’ve been hit and they’re interested in making sure that banks are solid,” Fairchild said. “They’re very particular and are making sure all of the loans are as good as they can be and the deposits protected.”

According to the FDIC’s annual deposit market share reports, Virginia National Bank’s market share in the Charlottesville metropolitan statistical area increased from 7.14 percent as of June 2008 to 9.27 percent in June 2009.

Rust said bank management forewent bonuses and raises to guarantee no layoffs and a 3 percent raise increase for employees. The Charlottesville-based bank raised ATM fees and insufficient-funds fees to offset the FDIC’s fourth-quarter special assessment. The bank will continue taking a conservative view in 2010, Rust said.



"We still believe things are better today than six months ago. However, we believe there is a long way to go," Rust said.

Banks across America also are facing the possibility of increased regulation in an attempt to stabilize the financial sector. FDIC Chairwoman Sheila Bair has said that bank failures will increase this year before subsiding in 2011, but those failures make way for expansion.

Rust said Virginia National Bank would consider looking at opportunities to expand by purchasing or merging with others.

"If the FDIC would approach us, we owe it to shareholders to at least look at it," Rust said.

Wei Jiang, a senior analyst with Charlottesville-based SNL Financial, said the main challenges for the banking sector this year are the pace of economic recovery and how regulators handle bank failures so the effect on others is minimal.

"I think banks should be cautious on growth at this time, as excessive growth was actually one of the factors that caused the crisis," Jiang said.

Those banks that entered 2010 with plenty of capital and solid management, however, could find opportunity in buying failed banks at a discount. But even that option comes with plenty of risks.

Jiang said community banks might have more difficulty finding solid footing than national banks because the smaller institutions tend to have "higher nonperforming assets rates."

"Also they usually have limited access to the capital markets, which makes them more reliant on deposits for funding," he said. "So, in general, I believe the recovery of community banks could be relatively harder than national banks, but this will certainly depend on the overall condition of the geographic area that a community bank operates in."

Daily Progress staff writers Bryan McKenzie and McGregor McCance contributed to this story.