2010 Trends: Bankers see another tough year ahead

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One CEO forecasts 'a steady, yet gradual and slow way out of this'

SANTA ROSA – Leading community bankers say the very weak economy and continued high unemployment will weigh on the region in 2010 while the banking industry itself is in for a round of consolidation.

"We are in for a rough year. The economy is very soft. I don't think there will be a real recovery until there is job growth. Historically, government spending doesn't improve the economy," said Russ Colombo, president and chief executive officer of Bank of Marin.

As for his industry, "I think this is going to be a year of significant consolidation," he said. "There are a lot of banks that are struggling in the Bay Area and everywhere, and you are going to see some consolidation in the industry."

Sherrill Stockton, senior vice president and SBA manager at Exchange Bank, said the bank's approach in 2010 will be to deepen the relationships between it and the client.

"We want to fill all the financial needs of our clients," she said.

Mr. Colombo echoed that theme.

"If you know your clients, it's not to say you won't have problems, but if you know them, you are going to be aware of the problems as they arise," he said.

"The sense that I get is that 2010 is going to be a very challenging year," said Marty Lombardi, president of Savings Bank of Mendocino and president of California Independent Bankers.

Bankers said, however, that they expect some small improvement over 2009.

"My sense is we are pulling out of this, not that problem loans are fewer," said Tom Duryea, president and chief executive officer of Summit State Bank in Santa Rosa. "I just think we are in for a steady, yet gradual and slow way out of this."

Mr. Duryea added that he sees "rates staying low for at least another year." He said "that means loan demand will pick up gradually."

Tom LeMasters, president of Bank of Napa, agreed.

“It appears that we have bottomed out, but that it is going to be slow going.”

After a tumultuous year in the economy at large, the banking community has seen the closure of more than 170 banks.

“It is reflective of the economy at large,” said Mr. Lombardi. “The banks are woven into the fabric of the community.”

Meanwhile, at the same time “everyone is trying to find a way to have bankers lend responsibly,” many “are not sure what a good deal looks like. It is troublesome.”

He said that part of the issue is overreaction by regulators.

In a letter to Federal Reserve Chairman Ben Bernanke and Chairwoman of the FDIC Sheila Bair, House Financial Services Committee Chairman Barney Frank, D-Mass, argued that community banks have become important players in the financial services industry and that it is short-sighted to weaken that role because of overzealous regulatory action.

“It is critical now more than ever that regulatory personnel out in the field apply a measured approach to examinations that is directed by agency leadership rather than subject to arbitrary decisions in the field,” he wrote.

Brian Kelly, president and chief executive officer of Charter Oak Bank in Napa, said that regulators are just doing what they are told to do.

“The big issue … is underwriting standards,” he said. “We are asking for things that show income.”

Mr. Kelly also said that consolidation was ahead, but that it would strengthen, not weaken, the industry.

“Assets are being purchased; there will be more consolidation in the banking industry. But that means we will come out stronger,” he said.