

## Prudent and profitable: Some banks maintain solid results

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As the banking industry works through its problems, some institutions in West Michigan are quietly posting solid results.

Amid the turmoil in the financial services industry, four small, privately owned banks in the region have all grown profits this year while maintaining moderate volume growth and keeping problem loans under control.

The results reflect those small, community banks' conservative approach to the marketplace.

"There's no magic formula. There's nothing any other good bankers don't know," said John Schreuder, president and CEO of First National Bank of Michigan in Kalamazoo that formed three and a half years ago and reached sustained profitability in late 2008.

"We do have goals, and we're trying to achieve those goals, but we temper that with what the market can do," Schreuder said.

FNB of Michigan, with two locations in Kalamazoo County and plans to open a third office in 2010, had net income of \$210,000 at midyear and recorded its straight profitable period in the second quarter. The bank had assets of \$378.4 million as of June 30, up 6.4 percent from the \$355.5 million through the first six months of 2008.

Other privately-held banks in the West Michigan marketplace posted improved earnings, as well, through midyear.

The Bank of Holland, for instance, grew mid-year net income 16.5 percent from 2008 to 2009. Grand Rapids-based United Bank of Michigan's net income is up about 5 percent and Founders Bank & Trust, with three offices in Kent County, boosted the bottom line by 9 percent.

The banks have been able to grow earnings and avoid many of the problems that several counterparts -- large and small -- have experienced in the economic downturn and housing meltdown, because of their long-term views, said Jon Chism of Plante & Moran.

Privately held banks also generally don't feel pressure from their shareholders to generate high growth rates

or a desire "to get big," enabling them to keep a good handle on the loans in their portfolio and manage risk, Chism said.

"They look at it as 'This is my bank; this is my business; this is my family,'" said Chism, noting that some small, publicly traded banks in the market that are closely held also have been able to avoid credit-quality problems to the extent of some competitors by taking the same view.

"They don't take unnecessary risks by trying to be big," he said.

That approach is exemplified by The Bank of Holland, which takes what President and CEO Garth Deur refers to as a "prudent," rather than conservative, approach to the marketplace and where asset quality and long-term relationships with commercial clients take priority over transactions.

"We gave up a lot of growth opportunities," Deur said. "We just politely passed on a lot of those."

Yet the bank has generated solid, consistent growth during its decade in business. Deur credits the performance to "the things we've done very diligently" over the years.



A few years ago, amid an intensely competitive commercial lending environment, The Bank of Holland -- with offices in downtown Holland and downtown Grand Rapids -- moved away from residential land development and speculation development as signs indicated the housing bubble was about to burst.

"That was the big bullet we dodged that we saw coming," Deur said.

In recent years, the bank has put more emphasis on lending in the commercial and industrial area, providing more operating credit lines and lending for capital projects.

The view The Bank of Holland takes is much the same

## Stabilization quarter

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at United Bank, where President Mike Manica says underwriting standards remained conservative a few years back, even as loan terms hit what one former bank CEO repeatedly called "irrational" levels.

United Bank -- with 11 offices in Kent, Allegan and Ionia counties -- typically required more down payment, a personal guarantee and higher collateral from commercial borrowers during that period, Manica said.

"We were unwilling to offer the terms that were the going rates in the market, so to speak," he said. "It got out of whack. We decided not to participate to a great extent."

As a result, United Bank's growth rates during that period didn't match its peers in the marketplace, which Manica says is just fine with him.

"That's the way it ended up, and at the time, I didn't have any regrets about it," he said. "Still don't."

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