

New Year Perspective
Guest Column by Garth Deur

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As we look back on 2010, West Michigan's economy saw some negatives, but we saw many more positives. We are very grateful that 2010 was a profitable year of wonderful growth for us. We know that we were not alone in our success. We credit our hometown roots and conservative business style for our continuing success. Many of our clients who also follow a lean, conservative approach also are poised for further growth as we enter the New Year.

Throughout 2010, we've seen some positive recovery in the manufacturing sector. We believe this will continue. Looking forward to 2011, Michigan's resurgence in the auto industry is creating great opportunities for suppliers. Continuing investments in life sciences will also continue to impact West Michigan positively.

Our bank has always admired and participated in West Michigan's entrepreneurial spirit, a spirit that is driving our economy now and into the future. New technologies and area organizations that support entrepreneurial vision and effort are enabling their growth. Entrepreneurs are an important part of the West Michigan business community. We believe they will continue to thrive here.

On the consumer side, retail numbers are picking up but sluggish. However, real estate will continue to be challenged. Despite signs that this market has turned the corner, we believe it will take years to work through. Even though loan losses are slowing, they remain at historically high levels.

In 2010, SBA and USDA lending played a critical role. In 2011, they will continue to be an important part of the tool kit for firms that work with small business. While we do not know exactly how political changes will impact these programs going forward, we expect them to be important for us.

Truly, interest rates can't go lower, so we expect, overall, that rates will continue to stay unusually low through 2011. Though seemingly counterintuitive, we believe that if rates do rise, it will indicate that positive progress is happening in the economy. We've already seen mortgage rates rise slightly in the last six weeks.

While the players may change, legislators understand that the banking industry remains a key foundational element for a sound economy. We do expect more regulation and oversight, but we doubt it will have significant impact on

us. Compliance is a fact of life in the banking industry and we take it very seriously.

Specifically, the Dodd-Frank Act is designed to eliminate predatory lending practices with respect to consumer banking loans and credit cards. As a commercial bank, we will be required to comply with certain aspects of the act but, again, it will have little impact on us. Unlike larger banks, we have never employed nuisance fees or less than full disclosure practices. We remain true to our core values of prudent lending and knowing our clients personally.

We were prudent with our lending practices well before the economic turmoil. This allowed us to remain profitable and actually grow despite the downturn. We already operate at the higher capital levels that regulators may, in time, require. So, we are well prepared for the future. We will continue as successful players in this push/pull environment where politicians want increased lending and examiners expect lending to be prudent.

In 2010, we saw an average of three to five small- to medium-sized banks being closed or taken over each weekend. In 2011, we believe this trend will continue. FDIC staffing levels may lead to a slight decrease as these levels have been a factor in 2010 closure rates.

Throughout 2011, banking will remain in a capital retentive environment. We see limited demand for new credit. However, businesses with volume and profitability that support expansion and growth will be able to find loans. Banks must manage risk — and that means advising clients on how to manage risk in their own businesses. The demand for credit has been lower in the last few years and there has been a significant amount of movement to local, community banks.

As 2010 closes, the attitude of business owners has turned the corner. Our recently completed survey found that our clients show a growing optimism for the future and are looking to reinvest and potentially add staff to support their growth. In 2011, they will be willing to play more offense than defense. Businesses in West Michigan are always moving forward and we expect to be a part of that trend.

Garth Deur is president and CEO of The Bank of Holland.