

Stabilization quarter

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WEST MICHIGAN – Banks in West Michigan are making progress in a tough environment and are somewhat pleased with their second quarter results. Area bankers feel the economy may have stabilized although there's concern that the economy could bounce around the bottom for a prolonged period of time.

According to a report from **Stifel, Nicolaus & Company Inc.**, the restoration of the supply of credit through government-backed loans, asset purchases, equity infusions and guarantees have kept credit markets from shutting down. The sharp falloff in global growth and trade has abated and some signs of improvement are evident.

Stephen Geyen, equity research analyst with Stifel, Nicolaus Equity Research – Midwest Banks, said there have not been dramatic increases in non-performing loans in Michigan and the Midwest.

"In many cases, including some Michigan banks, non-performing loans are stable or down from the first quarter," Geyen told *MiBiz*. "We're seeing stabilization across a number of banks."

He noted banks with declining stock values typically are undercapitalized or have credit problems.

As bad real estate loans tail off, investors are becoming concerned about commercial real estate and industrial loans for projects like hotels, offices, strip malls, apartment buildings and lines of credit to manufacturers. Geyen said there are increasing signs of non-performing loans in those categories over the last two to three quarters.

Fifth Third

At **Fifth Third Bancorp**, average core deposits increased nine percent from the previous year with overall net income for the second quarter at \$882 million, although that amount included the proceeds from the sale of an approximate 51-percent interest in Fifth Third's processing business.

Overall, we were very pleased with the second quarter results in a very difficult environment," said Fifth Third Bank Western Michigan President John Bultema. He said there has been a very strong growth in demand deposit accounts.

"We've been very focused on deposit growth. A lot of people are wanting to conserve cash and save more," Bultema told *MiBiz*.

Fifth Third Bank stock hovered around \$1 and has grown to around \$10 in early August. Bultema said as a result of the required stress test, the bank was required

to change the quality of its capital.

"We exceeded the goal that we were given by 60 percent. The street has taken that as a very positive sign," Bultema said.

Independent

Independent Bank Corp. reported a second quarter net loss of 26 cents per share impacted by a provision for loan losses of \$27.8 million, loan and collection costs of \$3.2 million and real estate and repossessed assets of \$1.9 million.

Independent Bank Corp. CFO Robert Shuster said the second quarter was much improved from the first and there are some positive trends. Earnings, before provision for loan losses and other credit costs were up 10 percent year over year.

"The underlying fundamentals of the bank remain strong and intact, allowing us to weather this storm. Like most of the banks in the region we've struggled with elevated levels of non-performing loans," Shuster told *MiBiz*. Independent Bank's level of non-performing loans and assets declined for the first time in more than three years. Shuster reported that delinquency levels have remained manageable and have declined on mortgage and consumer loans.

Independent Bank is approximately 60 percent retail and 40 percent commercial or business banking. Shuster said the bank plans to expand its Small Business Administration loans.

Community Shores

Muskegon-based **Community Shores Bank Corp.** reported a second quarter loss of \$1.46 million or 99 cents per diluted share. The second quarter and six months year-to-date results reflect a non-cash charge of \$1.11 million associated with a tax valuation allowed on deferred tax assets, higher FDIC assessment fees and higher credit administration fees.

Community Shores Bank President Heather Brolick said the bank remains well capitalized with an 11.12 percent ratio of total risk-based capital, a score which improved four basis points. Total revenues for Community Shores were \$2.28 million for the second quarter compared to \$2.3 million a year ago.

"On a consolidated basis, things are still difficult for the bank," Brolick told *MiBiz*. "We're seeing some progress made in terms of maybe finding the bottom in the real estate market."

Brolick said Community Shores is a community bank in it for the long haul and working with

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customers. The bank is in the midst of a campaign to attract deposits.

The Bank of Holland

The Bank of Holland President Garth Deur said second quarter earnings for The Bank of Holland and The Bank of Northern Michigan were up 6 percent compared to 2008. Despite the FDIC assessment levied in June, earnings for the second quarter were up compared to a year ago.



"We continue to grow both local deposits and loans," Deur told *MiBiz*. "Despite the continuing challenges

in the West Michigan economy, we're very pleased with our performance and very pleased with the progress that many of our customers are experiencing also."

Deur said The Bank of Holland reduced its exposure to residential development and speculative commercial projects a few years ago.

"We believed that the trends that were in place were not sustainable and that has in fact proven to be true," Deur said. "We have a strong balance sheet, a strong mix of customers and we are still looking for opportunities for new relationships."

The vast majority of The Bank of Holland's business is commercial banking. Deur noted there are still some strong businesses, including greenhouses, throughout the region.

Mercantile

Mercantile Bank Corp. reported a second quarter loss although capital ratios improved across the board either through lower asset levels and/or an increase in equity from TARP funds.

Mercantile Bank of Michigan Chairman and CEO Mike Price said that although the second quarter was disappointing from a bottom line standpoint, the net interest margin increased substantially. Price said Mercantile Bank made cuts in overhead but recorded one-time expenses including severance pay.

"A month into the third quarter, there are some indications that the recession may be easing somewhat," Price told *MiBiz*. "Just generally, all feel closer to the end of the recession than the beginning."

Price said Mercantile Bank is very strong in the commercial lending arena and 90 percent of the bank's loans are to small businesses. Although many of Mercantile's customers are doing very well, those involved in commercial real estate have been challenged in the last two years.

Increased regulations

West Michigan bankers are concerned about new regulations. Brolick said new regulations are designed to make people take the time to think through transactions.

"More regulation is going to affect the business world, but also consumers," Brolick said. "A lot of new regulation is designed to make things easier for consumers to understand – that doesn't always come to pass."

"I think they have to be careful not to let the pendulum swing too far," said Bultema. He noted that 94 percent of the high-cost mortgages that led to the recent financial crisis were made by unregulated non-bank financial services, not regional or community banks.