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Ga’s Banks: Poor Second Quarter, Difficult Year

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The first half of 2009 was a challenging and difficult period for Georgia banks. The second quarter proved to be the worst period in more than 20 years with statewide losses exceeding $1.2 billion. Year-to-date losses were $1.8 billion compared to $942 million in profits reported for the comparable period in 2009.

Several factors — common to most banks in the state — contributed to the substantial negative swing in profitability including:

- Net interest income, a primary driver of profitability, decreased $400 million in 2009 compared to the similar period in 2008. Federal Reserve initiatives to cut rates during the fourth quarter in 2008 squeezed interest income.
- Nonperforming loans (90 days or more past due and non-accrual loans) peaked at $10.1 billion, almost double the level of a year earlier.
- The performance of Georgia banks varied widely throughout the state. Many banks were profitable, but even more had losses, some so large as to distort average statewide statistics.
- Construction loans to builders and developers, as well as commercial real estate properties — strip malls, office buildings, etc. — were the primary sources of loan defaults and extended delinquencies.

The Center for Excellence in Financial Services at Georgia Southern University tracks 38 banks between $50 million and $999,000 in asset size based in 21 counties in southeastern and coastal Georgia.

This southeastern region group lost $29.9 million year-to-date compared with $37.3 million in profits in 2008. Performance for individual banks ranged widely from $2.4 million in net income for Heritage Bank in Hinesville to a loss of $13.7 million for Darby Bank and Trust, based in Vidalia.

Eighteen banks were profitable. Yet five banks combined lost $30.3 million. Many of the same factors that affected banks statewide were at play in southeastern Georgia, although to a lesser degree.

Lower interest margins and increased expenses for loss reserves to accommodate higher loan defaults and non-performing loans were primary factors in year-to-date losses. Construction loans to builders and developers, as well as commercial real estate properties — strip malls, office buildings, etc. — were the primary sources of loan defaults and extended delinquencies.

The region was acutely affected by the failure of Silverton Bank. More than 75 percent of the 38 banks in the region had correspondent banking relationships with and many had equity investments in Silverton Bank.

Some of the smaller banks in lower-growth communities were involved in Silverton Bank-led loan participations that defaulted in Georgia, the coastal communities of Florida and South Carolina or Arizona.

Equity investments in Silverton Bank became worthless and were written off. Overall, the 38-bank group outperformed statewide averages in all key financial and risk management metrics. The region's overall performance was in the middle of the pack compared to other geographic regions as categorized by the Georgia Bankers Association.

No banks in the region have failed, although several banks appear to be severely weakened.

Ten banks headquartered in Chatham, Effingham, Bryan and Bulloch counties fared slightly better. Half of them were profitable, and a sixth was virtually at a break-even level.

Bryan Bank and Trust and Savannah Bank were the most profitable locally. Four banks had losses year-to-date, and two of them had combined losses of $9.7 million. Four banks had pre-tax losses of $8.2 million related to Silverton Bank's equity.

While improvement is expected in the third and fourth quarters, economic conditions and the banks' borrowers remain fragile. It is expected banks will continue to build loss reserves and flush out bad loans, sacrificing short-term improvements in earnings in order to strengthen their balance sheets.

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