

# College of Business News

March 28, 2013

Georgia Southern University

Follow this and additional works at: <https://digitalcommons.georgiasouthern.edu/cob-news>

---

## Recommended Citation

Georgia Southern University, "College of Business News" (2013). *Business, College of - News*. 107.  
<https://digitalcommons.georgiasouthern.edu/cob-news/107>

This article is brought to you for free and open access by the Business, College of - College Publications at Digital Commons@Georgia Southern. It has been accepted for inclusion in Business, College of - News by an authorized administrator of Digital Commons@Georgia Southern. For more information, please contact [digitalcommons@georgiasouthern.edu](mailto:digitalcommons@georgiasouthern.edu).

# Community bankers bemoan fate of ‘bread and butter’ mortgages

March 28, 2013

By Adam Van Brimmer

STATESBORO — Pembroke’s First Bank of Coastal Georgia is one of the few community banks in the state that dodged the mortgage meltdown.

Of the bank’s \$9 million worth of mortgages in 2012, the institution repossessed only a handful of properties. And none of the remaining home loans were delinquent as of Dec. 31, according to Federal Deposit Insurance Corp. reports.

Come next January, though, First Bank’s approach to mortgage lending will be frowned upon by the federal government’s Consumer Financial Protection Bureau.

The stance by the new agency, created in 2010 as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, leaves First Bank’s leadership facing a difficult decision: Scrap what is a highly successful strategy or open the bank up to litigation from borrowers.

The bureau’s new mortgage guidelines were among several topics discussed Wednesday at the seventh annual Georgia Southern Regional Community Bank Symposium.

But for the 100-plus community bankers in the Forest Heights Country Club ballroom, the mortgage changes ostensibly written to curb predatory lending processes caused the most angst.

“Any way you look at it, the CFPB guidelines will require major soul-searching and planning on the part of any bank that utilizes them,” Brad Washburn, an executive with Statesboro-based bank consulting firm Steve H. Powell and Co., told the audience. “It’s the way we’ve always done business. With our customers, they’re used to it. They like it. But it’s going to be harder to do them.”

First Bank of Coastal Georgia’s sin, according to the CFPB, is in being the rare financial institution that keeps every mortgage it originates. The bank does not sell loans to secondary buyers like Fannie Mae or Freddie Mac.

Unlike Fannie and Freddie, First Bank’s viability is tied to interest-rate margins, or the difference between what the bank makes on interest from loans and what it pays in interest on deposits.

Mortgages are long-term loans — 30 years in most cases — and interest rates fluctuate significantly over that period. No bank wants to write a loan today at 3.5 percent knowing the interest it pays to its depositors could be at 5 percent seven years from now.

The community bank solution has long been to write short-term mortgages with long-term principles. These mortgages come with balloon payments and the understanding that, when the balloon comes due at the end of the term, the bank will renew the loan for another term at the current interest rate.

For example, First Bank will write you a three-year balloon mortgage today, with the payments based on a 30-year amortization table at 3.5 percent and the balance due in a balloon payment in March 2016.

The month before the big payment hits, though, the bank will write another three-year balloon mortgage at the 30-year interest rate at that time.

Such loans fall outside the limits of a “qualified mortgage” and its limited lender liability protection under the new CFPB guidelines. The rules revolve around an “ability to repay” standard, which at its core means that the borrower has the resources to pay the highest possible payment tied to the loan.

In the case of a short-term balloon loan, where the balance often runs in the six-figures, few borrowers meet the standard. If a bank issues a loan that doesn’t meet the standard and the borrower defaults, then sues claiming the bank misled them in issuing the loan, the bank will be “taking its chances.”

“This is very concerning because banks use in-house mortgages to help customers with a certain need,” The Savannah Bank President Holden Hayes said. “Some mortgage borrowers want to keep their loan with the community bank they got it from, and this rule makes doing that a lot riskier.”

The guideline’s impact is concerning even to Georgia’s chief banking regulator.

“Balloon loans are the bread and butter for all of you,” said Rob Braswell, Georgia Department of Banking and Finance Commissioner. “That’s what your customers want.”

The CFPB’s guidelines go into effect Jan. 10, 2014, and the agency has pledged amendments and exemptions in the meantime. The current “ability to repay” rules apply only to the first five years of a loan term, meaning community banks can still issue balloons on mortgages of 61 months or more.

First Bank’s president, Doyce Mullis Jr., said doing balloon mortgages at a longer term is one of several options the bank’s board will consider.

Powell and Co.’s Washburn said next year could be the dawn of a new type of “risk-tolerant” bank.

“A lot of us will need to remain in the mortgage market to stay viable,” Washburn said. “You try to reasonably meet the spirit of the law and take your chances.”

# The Entrepreneurial Challenge of Turning a Venture Around

March 28, 2013

The Center for Entrepreneurial Learning and Leadership's annual **William A. Freeman Memorial lecture will be on April 8th at 5:30pm in the Assembly Hall of the Nessmith-Lane Building at Georgia Southern University**. The lecture is open to the public and all are welcome. This year the lecture will be given by Georgia Southern University alum David Handlen and will focus on "*The Entrepreneurial Challenge of Turning a Venture Around*".

## **About the Speaker**

Working for the Air Force and taking classes at a university at the same time can be a trying effort. Late night classes, relocation, and university transfers can create barriers that make achieving an education difficult. Nevertheless, David Handlen's determination and drive helped him to overcome these obstacles and achieve his Bachelor's in Business Administration at Georgia Southern College. With this degree, Handlen went on to successfully manage and develop several snack food plants leading to millions of dollars in profit. Originally from Burlington, Vt., Handlen moved around when he was young. He lived with his grandparents until his parents got out of the army. "*I really did live all over the place,*" Handlen said. "*I went to three different high schools and then started college at the University of Connecticut.*"

However, his parents soon moved to California. No longer able to meet Connecticut residency requirements, Handlen decided to enlist in the Air Force. "*In those days, the draft was going on, and I knew I really didn't want to be in the army,*" Handlen said. "*The Air Force offered a good program so I decided to join.*" During Handlen's seven and a half years of service, he still found time to get his education by taking night classes at different universities. "*I took classes for almost five years at night time,*" Handlen said. Although it was difficult managing the Air Force and his studies, Handlen admits it was his motivation that helped him stay focused. "*I wanted to get my degree and just stayed very committed,*" he said.

In 1969, he left the Air Force and was accepted to Georgia Southern College. "*Georgia Southern was very kind to me and gave me credit for all my schooling that I had been taking while in the military,*" Handlen added. "*They accepted all my credits, two and half years' worth.*" While at Southern, Handlen took on a job managing the old Wise Theatre in downtown Statesboro. His experience managing at the theatre combined with other management skills he acquired during the Air Force convinced Handlen to major in business. "*I believed that Georgia Southern had a great school for management,*" Handlen said. "*I got into it, really enjoyed it, and excelled.*" He graduated from Georgia Southern in 1971 with his Bachelor's degree in Business Administration.

After graduating, Handlen worked in Alma, Ga. with the Model Cities Program. However, not feeling a good fit for this public program he took on a job as manager with a Frito-Lay plant in Salisbury, North Carolina. "*This is where my career really took off,*" Handlen said. "*Frito-Lay helped me to get my basic management training out of college.*" Over a period of seven and half years, Handlen worked in four full

time plants and helped start off two plants in Wisconsin and New York. *“Working with several of [Frito-Lay’s] plants throughout that time period, I got a lot of basics on how to make snack food,”* he said.

From Frito-Lay, Handlen took on a job in California as plant manager with Laura Scudders, a large snack food operation that existed on the west coast. In charge of 600 employees, Handlen began to get the feel for more responsibility. *“I was able to apply everything I had learned with my Frito-Lay, military, and college background,”* Handlen said. *“I was able to turn the plant around and become quite successful.”* Handlen admits working for Laura Scudders was his favorite job. *“I was able to bring everything that I learned over the last 10 years and apply it,”* he said. *“I felt like a kid in a candy store.”*

Over the next 30 years, Handlen would continue to progress in his management career moving up the administrative ladder. He worked for several different companies including Azar Food Services, Klien Brothers, and the Standard Meat Company. He successfully helped to turn around plants for each of these. Handlen agrees his most successful story was working with Winchester Meat Company in Hutchinson, KS, a branch of the Standard Meat Company. Handlen was hired to turn around a meat packing plant that was built in 1898. *“The plant had been sitting idle for seven or eight years,”* Handlen said. *“There had been two to three companies in there for the last 85 years. I was hired to go and put money into the plant.”* And put money in it he did. Handlen’s boss bought the plant for \$50,000. When he was done with it, it sold for \$9 million.

The last 10 years of his career, Handlen went into consulting. *“I went on to do consulting for 12 different companies. Every single story was a turn around,”* Handlen said. *“I did consulting for both food and nonfood – taking a company and turning it around completely.”* Consulting was Handlen’s way of meeting a challenge. When he would get a company up and running, he would move onto the next one. As he continued consulting, he soon gained an effective group of team members. *“I had a couple of people that moved around with me,”* Handlen said. *“We were a team and we got a reputation that we could turn a company around in six months or so. People would come looking for us because they knew we were reliable.”*

Handlen attributes a lot of his business success to classes taught to him at Georgia Southern by Dr. Rick Stapleton. Stapleton’s classes were built around a case study approach which forced students to bring lessons from their other courses and apply them to a problem. *“That approach really helped me with business because it felt just like the real world,”* Handlen said. *“He taught me to bring math, finance, human resources, accounting and data processing to help run a business.”* Consulting would be Handlen’s last full time job before he retired three years ago. Although retired, he still finds time to substitute teach three days a week at local high school in Fort. Worth, Tx. He also enjoys gardening and playing racquetball.

As for any entrepreneurs looking to start their own business, Handlen advises them to work on their listening skills. *“I’ve met a lot of young people in the last few years that talk too much,”* Handlen said. *“Sharpen your listening skills to understand your customers.”*

Profile written by: Natalie Demarko