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Officials share their insights on future of community banking

BY ADAM VAN BRIMMER
For BIS

STATESBORO – Bankers from around Southeast Georgia and representatives from three main regulatory agencies gathered for the Georgia Southeastern Region Community Banking Symposium last month to discuss the future of your hometown banks.

The consensus was that not only is community banking still viable as an industry but that local banks will play a critical role in the recovery and beyond.

After the formal discussion, Joe Brannen of the Georgia Bankers Association, a trade association representing Georgia’s banks, and the three regulatory officials at the conference participated in a roundtable discussion organized by the Georgia Bankers Association and Georgia Southern University and hosted by Ed Sibbald, GSU’s director for excellence in financial services.

The regulators were:
- Thomas Dujenski, the Atlanta region director of the Federal Deposit Insurance Corporation;
- Rob Braswell, commissioner of the Georgia Department of Banking and Finance; and
- Steve Wise, vice president of community bank supervision for the Federal Reserve in Atlanta.

The following is a partial transcript of the roundtable discussion.

Q. A high percentage of community banks to survive to this point remain under increased regulatory scrutiny, which has limited the opportunity to raise capital and improve their overall health. In addition, the loss-share agreements that are part of acquisitions-through-closures seem to favor larger banks, which can alter the market landscape and put pressure on the healthy banks within a community. What are the best approaches you see for these community banks, troubled or otherwise, to attract investment? Can the regulators play a role in instilling confidence in banks with investors?

Dujenski (FDIC): The institutions that have served their communities, that have a good network of deposits from that community, will always be attractive for capital. Community banks have played a critical role and will continue to play a critical role as we go forward with the recovery.

Braswell (GDBF): The regulator’s role is not to instill confidence, but we can help in not being an impediment to a bank finding additional capital. When there is a reasonable plan to inject capital, we need to be very responsive to those applications and open to ideas to see if they are reasonable and legitimate. If so, we need to act very quickly on those. We have always been proactive when it comes to additional capital but given these times and knowing the great need for additional capital, yes, it’s very high on our priority list when an application comes in.

Wise (Fed): There are guidelines and restrictions regarding who can control a bank. Those requirements have to be met, but as regulators we are pro-capital. We want to see capital flow into the institutions. We talk a lot about franchise value and what we’re talking about is building a franchise that investors would be interested in. Regulators don’t really have anything to do with that. Part of the way to do that is to work both sides of the balance sheet. We saw a lot of institutions in this environment where funding was readily available and they went out and made a lot of loans but never really built up the funding side of the balance sheet. And as a result, margins are compressed. A potential investor coming in to look at this institution and how he could leverage this institution by investing in it to do something greater, he doesn’t see value there. They don’t see the core deposit funding that we like to see. We’ve been stressing that and it is a valuable lesson for us all. You need to understand the importance of building franchise value all along the way so if you do get to a point where you need defensive capital, you have investors who are more willing to invest because they feel like they can do more with this institution versus one that when you peel back the layers there’s not a whole lot there.

Brannen (GBA): The absence of capital is all part of the economic cycle we’re in. Traditionally, capital has come to community banks from people they know in their communities. People from around the board tables. People who own businesses in the communities. Those are the ones who have funded these banks.