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Georgia not really the 'Chernobyl of Banking'

During the past four months, the Georgia banking industry had more than its fair share of negative press and media coverage.

Some of it related to the stress created by the broad and deep economic recession. Another reason was the sharp decline in financial performance — profits in 2008 turning into significant losses in 2009.

A third and highly visible factor was the number of bank failures in Georgia during the past 18 months.

The critical tipping point in coverage was an article in the Wall Street Journal on June 10 in which Camden Fine, president and CEO of the Independent Community Bankers Association of America, was quoted as stating "Georgia is basically the Chernobyl of Banking right now ... it is radioactive down there!"

He subsequently qualified his statement as referring to the level of regulatory scrutiny in Georgia.

Unfortunately, the qualification did not get the same attention as the headline "Chernobyl of Banking." The damage was done, and the media paid more attention to issues facing Georgia banks.

Barely a week goes by without an article about banking in

the Atlanta Journal Constitution. Even the British weekly magazine, The Economist, ran an article on the problems in the Georgia banking industry, and on "CBS News," Katie Couric included an interview with a Georgia bank president in a story about bank failures.

It seems Georgia became the poster child for problems in the community banking industry.

Putting the numbers into perspective

At first glance, the facts about the Georgia banking industry are damning and appear to support the negative media coverage. In fact, Georgia banks and many others nationwide are facing the most serious change in a generation. Consider the following:

- Georgia banks lost \$1.8 billion year-to-date in 2009, including \$951 million for the state's two largest banks — SunTrust Banks and Synovus Financial Corp.

- Only 43 percent of the state's banks were profitable year-to-date compared to 73

Most of the bank failures in Georgia were concentrated geographically in a 75-mile radius around Atlanta.

percent of banks nationwide.

- Twenty-three banks failed, 19 percent of the 119 banks closed by the FDIC since the beginning of 2008.

- About 100 banks — almost a third of Georgia's 324 banks — are under some form of regulatory administrative agreement.

However, let's put these facts into perspective, and the situation is not as bleak as reflected in the numbers.

First, the majority of banks in Georgia are community banks between \$50 million and \$999 million in size.

This group had losses year-to-date of \$384.8 million — comparable to other states such as California and Florida that experienced high banking growth rates and new banks created within the past 10 years.

Based on the number of banks relative to losses, banks in Arizona, Nevada and Florida fared worse than Georgia.

Second, many of the banks that failed in Georgia were small, often relatively new banks with limited loan portfolios, primarily in commercial real estate loans. Based on FDIC projected losses, Georgia ranks fourth behind California, Florida and Texas.

In fact, the losses in California are triple the amount of all losses incurred in closing Georgia banks. The recent failure of Colonial Bank in Alabama is projected to cost the FDIC approximately \$2.8 billion — an amount close to

THE STATE OF GEORGIA'S BANKS

This is the first of a four-part series:

TODAY: The performance of Georgia banks year-to-date in 2009 in context of issues and challenges facing banks nationwide.

Part 2: Banks in coastal Georgia.

Part 3: The unintended adverse consequences of current regulatory and Treasury Department initiatives on community banks in Georgia.

Part 4: Bankers' suggestions for modifying several current regulatory practices.

the combined amount for all of Georgia's bank closings.

Third, most of the bank failures were concentrated geographically in a 75-mile radius around Atlanta. To date, no bank has failed south of Macon or east of Jones County in central Georgia. Approximately 89 percent of the banks are considered "well-capitalized," the highest rating, based on existing regulatory capital guidelines.

Finally, in terms of perspective, two things should be noted:

1. No depositor covered by FDIC insurance (\$250,000 per account) has ever lost any money because of a bank failure in Georgia.

2. American taxpayers have not lost a dime because of problems faced by Georgia banks. Instead, taxpayers have earned more than \$167 million in dividends during the past nine months on Treasury Department capital investments of \$6.3 billion, most of which went to the three largest banks in the state.

Georgia banks will continue to be challenged by the consequences of the broad and deep recession and the collapse in values in the residential and commercial real estate market in the months ahead.

More banks will fail. However, most of the state's banks will weather the storm, continue to contribute to the long-term growth of Georgia and offer safe, risk-free investment alternatives for depositors.

Edward H. Sibbald is the BB&T executive in residence in banking, College of Business Administration, Georgia Southern University, and director of the college's Center for Excellence in Financial Services. He was in commercial and community banking and related financial services for more than 30 years, served more than 20 years as a board member of several community banks and served as chief financial officer and division executive for retail banking for a \$2.4 billion community bank in Illinois. He may be contacted at ehsibbald@georgiasouthern.edu.

from the chamber

Small Business Council great tool for small employers

Did you know 80 percent of the Savannah Area Chamber of Commerce's 2,200-plus members are small businesses with less than 25 employees?

The Chamber has a council to provide its small-business members with the resources they tell us they need to help build their businesses, learn best practices, network and become more involved from an advocacy stand point on behalf of small business.

These businesses are not only a driver in our community, but also a vital piece of the national economy. Numbers released by the Small Business Administration reflect how the existence of small businesses can stimulate economic growth and hopefully improve economies around the world.

Small businesses:

- Represent 99.7 percent of all business firms.

- Employ half of all private-sector employees.

- Pay 45 percent of total U.S. private payroll.

- Have generated 60 to 80 percent of net new jobs annually over the past decade.

- Create more than 50 percent of non-farm private gross domestic product.

- Are 53 percent home-based and 3 percent franchises.

Involvement in the chamber's Small Business Council is a great way to get to know other business owners, meet potential clients or be introduced to other business professionals in the area.

With the down economy, it is more apparent that people

want to do business with people they know and trust, and participating in the Small Business Council is one way you can grow your business.

The council meets the first Tuesday of each month at the Savannah Morning News Auditorium. Networking begins at 11:30 a.m. followed by the SMART lunch program, which focuses on topics that affect small-business owners.

All member businesses are welcome to attend. Not a Chamber member? Call us to find out about member benefits and be our guest at the next Small Business Council meeting.

For membership information, contact member services manager Susan Smith at 912-644-6434 or ssmith@savannahchamber.com.

NEXT SMALL BUSINESS COUNCIL/ SMART LUNCH SERIES

When: 11:30 a.m. networking; noon lunch Oct. 6

Where: Savannah Morning News Auditorium, 1375 Chatham Parkway

Speaker: Trip Tollison, COO/VP Government Affairs Council of the Savannah Area Chamber of Commerce, will present "Legislative Update for Small Businesses."

Cost: \$10

Reservations: Required by noon on the Thursday before the event

Contact: Susan Smith at 912-644-6434 or ssmith@savannahchamber.com.

Future SMART Lunch Series programs:

Nov. 3: Hannah Byrne, partner/chief creative officer of Smack Dab Studios, will present "Going Virtual — Using the Internet to Keep Your Business Connected."

Dec. 1: Will feature the always popular "Speed Networking."

