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ATLANTA BUSINESS NEWS

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## Regulators target volume-based bank pay

By Paul Donsky

The Atlanta Journal-Constitution

At MagnetBank, regulators say, loan volume rather than loan quality was king.

The bank, founded by a group of Atlanta investors but chartered in Utah, structured pay packages for its loan officers based on production — a risky strategy that regulators say contributed to the bank's failure last January.

The Federal Reserve is moving to limit such behavior at banks nationwide. The goal is to tie compensation to longer-term financial performance rather than short-term gains that may prove fleeting. A loan officer paid on the volume of business he brings in, for example, may not pay as close attention to the quality of the loan.

The Federal Reserve Board is expected to vote on a plan in the next few weeks, Fed officials said Tuesday, though details haven't been released.

Restrictions on compensation could have enormous effect on Wall Street's largest banks, which often shell out huge bonuses based at least in part on short-term returns. Those firms packaged and sold the mortgage-backed securities that later turned out to be toxic, sending the economy into a tailspin.

It's less clear what any change could mean for Georgia's banking community, which is dominated by small, "Main Street" lenders that offer much more modest pay packages.

Some Georgia bankers oppose increased regulation on philosophical grounds, arguing the problems like those at MagnetBank outlined in a recent federal audit are rare and not the cause of the deep recession.

Charlie Crawford, president of the Private Bank of Buckhead, said banks, not the government, should determine how employees are paid. Regulators already have the power to address problem institutions through the examination process, he said.

"I'm a free enterprise guy, so the less regulation probably the better," he said. "I already think we have ample regulatory oversight."

Crawford said banks must be careful not to structure compensation packages in a way that encourages excessive risk-taking. It's just something that should be handled internally, he said.

"Ultimately, to me, the responsibility is in the management of the bank and the board," he said.

The proposed regulation would cover the vast majority of the more than 300 banks based in Georgia. Only banks that do not have a bank holding company would be excluded — perhaps 30 or 40 statewide, said Joe Brannen, president of the Georgia Bankers Association.

Peter Eisemann, a finance professor at Georgia State University, said changes in regulation regarding compensation are overdue, especially at the nation's banking giants.

"The compensation has been short-term oriented, not long-term oriented," he said. If you do that "you get paid quickly without the full impact of what you've done being seen."

Brannen recently wrote in the AJC that the government shouldn't set limits on pay for anyone in the private sector, whether it's a "banker, construction worker or small business owner."

But Eisemann said banks are different from other businesses, and should be treated as such.

"They want to be treated like a private enterprise, but what they don't want to admit is when something goes wrong with the banking system, we all pay for it," he said.

"Banks are special. They have a special role in our economy, and that's why they are regulated the way they are regulated."