

GEORGIA'S ECONOMY

# Fewer banks fail than expected

Experts: Industry to get smaller, stronger.

77% 'well-capitalized,' association CEO says. Battle now is to diversify.

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The past few years haven't been kind to Georgia's banking industry, but the past few quarters, and the year to come, could prove to be the time when the industry started its slow turn for the better.

The state's lenders collectively have lost more than \$5 billion since 2008, according to Federal Deposit Insurance Corp. data. And more banks have failed here in that time than in any other state.

But fewer Georgia banks failed in 2010 than many expected, and observers of the state's banking industry hope 2011 brings further stability. Or at least that it doesn't get any worse.

The industry, experts say, will continue to get smaller and some names could change as weaker players make way for stronger institutions. Banking analysts and experts expect

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# 21 failed this year so far

## Banks

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the sector's recovery to stretch into 2014 and perhaps longer.

A few bright spots emerged this year:

● SunTrust Banks, the state's largest, posted its first profit in nearly two years during the third quarter and signaled it would be profitable again in the fourth quarter. The bank has yet to repay the bulk of its \$4.85 billion in federal rescue funds, but it could be positioned to do so early next year.

● For two quarters in a row, banks reported fewer new problem loans than the quarter before.

● About half the state's banks were profitable in the third quarter — far more than a year ago.

"For the first time in three years, I'm mildly optimistic," said Walt Moeling, a banking attorney with Bryan Cave.

Banking remains one of Georgia's hardest-hit sectors, and it is an industry vital to the state's recovery. Most of the state's lenders are small community banks, not Wall Street behemoths, and their customers are typically employment engines such as small businesses, home builders and other entities that rely on consumer spending.

The state's institutions hold \$3.53 billion in foreclosed real estate on their books, according to FDIC data.

Still, half or more of Georgia's banks are under some form of regulatory sanction, and others have grown more conservative — partly for fear of criticism from regulators and partly because the pool of good borrowers has also gotten shallower, said Brian Olasov, an expert on real estate credit and banking issues and managing director for McKenna Long & Aldridge.

Total loans outstand-

ing from Georgia banks are 10 percent lower than at year-end 2008. That's a \$22 billion chunk taken out of the state's economy.

"Georgia banks are working aggressively to clean up bad loans, which allows them to make reasonable new loans," Olasov said.

Underscoring the challenges of the industry, three more small state banks failed Friday, bringing Georgia's total for the year to 21. Fifty-one have failed since August 2008.

Despite the problems in the industry, 77 percent of the state's banks remain "well-capitalized" by industry standards, said Joe Brannen, president and CEO of the Georgia Bankers Association.

More banks are making money and are better able to lend, he said, but many economic factors stand in the way.

"Is 2011 going to be different?" he said. "The crystal ball says it has to be."

One's view on the market often depends on where you sit.

**Private Bank of Buckhead, which opened four years ago, largely escaped the pain of the real estate debacle, and it has pushed into new lines of business such as Small Business Administration loans. It recently opened a mortgage origination office as it seeks new revenue.**

"[The industry] had a pretty steep decline, and it's going to take a long time to come back," said Charlie Crawford, the bank's chairman, president and CEO.

The sector's challenges are daunting. Unstable real estate values, unemployment and tapped-out borrowers continue to plague banks in Georgia and elsewhere.

Small banks will have to find diverse ways of making money and move away from dependence on land development loans, experts say. Many have plunged into more traditional small-business loans, but demand remains weak.

They will also need the help of private investor cash to buy up rival banks and related businesses. But much of that money remains on the sidelines.

Jim Wheeler, a banking attorney with Morris Manning & Martin, said unemployment remains an economic drag and real estate values need to rebound before full recovery can take hold.

"I don't yet see the catalyst to make things better," he said.

Chris Marinac, a bank analyst with FIG Partners in Atlanta, said the state's banks have recognized most of their problems.

Now they are struggling to find new ways to be profitable without the gold mine that was real estate development.

The regulatory regime also has limited the ways banks can make money, and new rules to come could make the cost of business soar for smaller institutions.

The state still has too many banks, he said, and he expects the number of players in the industry to continue to get smaller.

Marinac said he expects about 20 banks to be closed next year, but he predicts Georgia will also start to see strong banks acquire weak rivals before they fail.

"This is not a pleasant time or a pleasant environment," he said. "The laws of supply and demand apply."

Merger activity has ramped up in other states, and Marinac said Georgia needs investors to plug money into its banks so they can shore up their problems and go on offense by buying up smaller rivals.

Analysts have even predicted some of Georgia's biggest banks could be targets, including Columbus-based Synovus Financial and United Community Banks of Blairsville.

Cash is starting to flow into Georgia institutions.

In November, a team of local and out-of-state investors bought a considerable stake in Gwinnett County's Brand Bank. The \$200 million investors plan to put into Brand could make it a player in the bank-buying sweepstakes down the road.

Analysts expect other banks to announce cash injections in 2011 as the market continues to sift out the weak and the strong.