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Community bank deposits at high, spotlighting loans targets

BY CATHERINE LACKNER

Community bank deposits are an all-time high right now, but has that created problems in finding worthy loan risks, given government limitations?

"Banks continue to want to increase their deposit base, and there are multiple incentives for banks to do so," said Lewis Cohen, a partner in the Miami law firm of Cohen Nicoleau, a boutique banking law firm. "Customer deposits are sources of new customer acquisition and, of course, a means of customer retention."

Deposit accounts, he said, "are a primary source of check-writing, wire-transfer and dormant-account fees. An increase in customer base is critical to virtually any bank, and once they have that customer relationship in place, banks have a variety of products and services to offer.

"Lending is a second major sources of bank income, but there are limitations on it," he added. Banks are prohibited from lending more than 15% of their capital and surplus to any one borrower, he explained.

"The exception is if a loan is secured by a government-



"Typically, banks are not turning away deposits, as there are still many lending opportunities out there."

Lewis Cohen

backed program," such as the Small Business Administration, Federal Housing Administration of Department of Housing and Urban Development, he said, because the risk of default is virtually zero.

"Loans themselves are a source of income for banks, so they are certainly motivated to bring in more customers," who might apply for loans, Mr. Cohen said. "Having a lending relationship with that customer

is part of having a well-rounded bank. Typically, banks are not turning away deposits, as there are still many lending opportunities out there."

Banks being awash with cash "is a temporary luxury," said Carlos Fernandez-Guzman, president of Pacific National Bank. "Once rates rise, those dollars will start to flow outside banks. Lending is the big challenge."

For many banks, that lending will lean more toward commercial, rather than residential, loans, he said. Because of government regulations, some banks, like Bank United, have stepped away from residential lending, he said.

"The regulations have swung so far that it has had this unintended consequence," Mr. Fernandez-Guzman said. "The risk of error is extremely high. We've stepped up our lending to owner-occupied commercial real estate, where we can compete."

Pacific Bank can offer attractive rates on small- to mid-size commercial loans, which he defines as being between \$10 million and \$30 million. "We can do a much better job," than the larger national banks.



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The larger loans, in the \$60 million to \$80 million range, “the big boys can do under one pen, without partners,” he said. “We’re not even on the screen for that.” Because they have more assets, the national banks aren’t so hampered by the 15% rule, he added.

Black-market lenders, unfettered by government regulation, have entered the market, Mr. Fernandez-Guzman said. “They can provide working capital, but

at higher rates than the banks can. But for these lenders, it’s strictly about the numbers.”

The relationship between bank and borrower is nonexistent, he said, “whereas with a community bank, you had a history built up, and when hard times hit your clients, you stepped up to the plate to help them make it through.”

“Community banks remain stressed,” agreed Hal Lewis, a partner in the Pathman Lewis law firm who focuses his practice on banking. “The regulatory environment works better for the bigger banks,” because it may require the hiring of more employees to comply with the complicated reporting requirements.

“Lending is on an upward trend, but here’s a lot of pressure,” he said. While banks may encourage more deposits so that they will have money to lend, they also have to raise their deposit rates to attract that business, in an era of very competitive loan rates.

“It’s a very tight spread,” Mr. Lewis said. “It’s becoming difficult for community banks to compete, and they have always been the backbone of the local banking industry.”