

## Community banks finally get 'official' recognition

by: Ted Gage, executive vice president of Capital Insight Partners, and has more than 25 years in financial journalism, investor communications and management consulting.

When Federal Reserve Chairman Ben Bernanke gave a speech to bankers recently, it was refreshing and long overdue to hear a top-ranking federal official finally address community banks and their challenges. It was as profound a moment as when, several months ago, government officials finally voiced to the public the difference between investment banks that do deals and move money around (not really banks at all) and real banks that make loans and have deposits.

Working extensively with the community banking sector, my partners and I have shared their pain from being tarred with the same brush as their larger and generally more troubled brethren. Publicly held community banks with sound capital structures, holding no toxic assets or subprime loans, making loans, growing deposits, demonstrating growth and even posting earnings have seen their stock prices plummet. Their capital structures have been pinched by noncash devaluations caused by mark-to-market accounting of sound but illiquid holdings.

The bad economy has forced most banks to set aside additional reserves for losses. Many have suffered from troubled real estate and construction lending. Banks lend to finance retail and commercial real estate, and the sharp downturn in real estate left few untouched. Many got caught with their pants down, and there were some poor underwriting decisions made, but I still think more of a bank damaged by a construction loan that went bad than a bank creating phantom assets with exotic financial derivatives.

In general, community bankers have done everything possible to continue lending, paying fair interest rates to depositors, charging fair rates to borrowers, addressing their mistakes, and serving their communities despite being shunned, vilified and misunderstood by the media and federal government.

Far from making profits at the expense of customers, community banks prove that by running a customer-focused, service-oriented business, they can serve their communities and also create value for shareholders. Across the country, community bankers have battled liquidity and capital availability issues to continue serving people as best they can.

Chairman Bernanke acknowledged community banks as a primary source of credit for small business. He spoke of nurturing the opportunity well-managed community banks have to continue lending at a time when troubled megabanks have been forced to pull back.