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# State's Banks Face Severe 2009

By Paul Gores, Milwaukee Journal Sentinel

Jan. 24--While national statistics indicate Wisconsin banks have held up relatively well as the economy has deteriorated, rising joblessness and the ongoing housing slump will keep more bankers awake at night in 2009, analysts say.

Fourth-quarter earnings reports this month by the state's two biggest banks show the year ended badly. Milwaukee's Marshall & Ilsley Corp. posted a \$404 million loss; while Green Bay's Associated Banc-Corp fared better, with a profit of \$13.6 million, earnings were still down 79% from a year earlier.

And the outlook for the new year by Wisconsin bank executives is anything but cheery, a survey released last week by the Wisconsin Bankers Association found. In the survey, almost half said they thought bank earnings will drop in 2009.

"Our problem in 2009 will be house prices will continue to decline and you will have a falloff in employment, and that causes higher delinquency," said John E. Rickmeier, whose Hartland company, IDC Financial Publishing Inc., analyzes the strength of banks in the U.S.

Rickmeier said he's never seen the condition of banks in general weaken so quickly, with delinquent loans piling up and banks being forced to add to their loan-loss reserves to cover bad debt.

The domino effect of people losing their jobs will take a toll on banks, analysts said. A report last week showed Wisconsin's unemployment rate shot up to 5.8% in December from 4.7% in the same month last year -- the highest December jobless rate in two decades.

"It affects consumer loans," said Kenneth Brusda, president of North Star Asset Management in Menasha. "But if there is a drop in retail sales like there's been, you have stores close up, and then commercial real estate projects could have problems. It all relates to the consumer being 70% of the economy. If the consumer has weakened because of higher unemployment, that impacts a whole lot of areas."

Daryll Lund, chief executive of the trade group Community Bankers of Wisconsin, said most smaller banks in the state are well-capitalized and don't seem to have much interest in federal Capital Purchase Program money that soon will be available to more of them. It will be a challenging year, but most are positioned to weather it, Lund said.

Still, he added, "Banks are a barometer of the local economy. If jobs are being cut, nobody is building new homes or buying new cars."

One in six lost money

Statistics from the Federal Deposit Insurance Corp. showed that one of every six Wisconsin banks took a loss in the third quarter of 2008 -- much better than the one-in-four loss for all banks in the U.S.

But Wisconsin's ratio almost certainly will be worse when the FDIC report for the fourth quarter comes out, said David L. Donihue, director of Maximizing Shareholder Value & Co. of Leesburg, Fla.

"We are in a recession," Donihue said. "You've got loans that go bad."

Rickmeier said the number of delinquencies is likely to rise every quarter this year, putting some banks in the position of having to sell to a stronger bank or risk being closed by regulators. He noted that Wisconsin hasn't had "anywhere near the severity of other states" in the amount of foreclosures and loan delinquencies.

Nonetheless, several banks in the state have rankings on Rickmeier's safety-and-soundness scale that almost always point toward failure. Rickmeier said he cannot discuss those banks by name because it might endanger them.

"They tend to be relatively small and are located around the state. They are not focused in Milwaukee," he said.

Wisconsin's largest banks don't appear to be in trouble, Rickmeier's analysis indicates.

"I don't see a problem of excessive delinquency above the loan-loss reserve and capital for any major bank in the state of Wisconsin," Rickmeier said. "As a group, I just don't see major problems at this juncture with the large banks in Wisconsin."

Nationally, 25 banks failed last year and two have been shuttered so far this year by regulators. None has been in Wisconsin.

Mergers may cull out weak

Like many analysts, Jon C. Bruss, chief executive of Fortress Partners Capital Management in Hartland, thinks the stress on banks will force some into mergers, which is the way regulators prefer to see weak banks taken out. But there are likely to be some failures, too, he said.

Bruss and Donihue said there will be opportunities for regional and smaller banks as the large national banks deal with internal problems and possibly lose focus on customers.

"I think because of the fact that the big banks are so messed up right now and are not lending, a lot of loan demand -- especially for smaller business -- is going to fall on the shoulders of regional and community banks," Bruss said.

So far, five banks in Wisconsin have received an investment from the U.S. Treasury to help them beef up capital: M&I and Associated and three smaller ones -- Green Bay's Nicolet National Bank, Baraboo National Bank and Bank First National in Manitowoc. A sixth, Madison's AnchorBank, said it also expects to receive a cash infusion through the federal Capital Purchase Program. Analysts say the money may come with the expectation that, at some point, regulators will encourage banks receiving the government investment to buy weaker banks that are in trouble.

Brusda said he believes banks, with the exception of some of the biggest national banks hard-hit by loan defaults, probably are changing their view of taking government money.

"Initially, I think it was, 'Gee, that's kind of cheap capital. Let's take it.' But I think there's an evolving attitude of, 'If we don't need it, let's not get in bed with the government,' " Brusda said.

Bank stocks, which were crushed last year, are likely to remain volatile until it's clear that profit-sapping additions to loan-loss reserves are slowing down, Brusda said.

That could happen in the second half of 2009, he said.

"It's just that at this point, the light at the end of the tunnel isn't there yet," Brusda said.

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