

## Not All Banks Doing Poorly Conservative Practices Help Prevent Losses

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(Source: Milwaukee Journal Sentinel) By PAUL GORES

Despite gloomy reports last week about bank earnings in Wisconsin and the U.S., not every bank is posting lower profits or losses.

Some of Wisconsin's biggest local banks were able to increase second-quarter earnings, defying the effects of the housing slump and credit issues that helped make the quarter the second-least profitable in 17 years for the banking industry.

North Shore Bank, Waukesha State Bank and Johnson Bank led the way among larger community banks that had sizable jumps in net income compared with the second period of 2007.

Brookfield-based North Shore Bank increased profits 28% in the quarter to almost \$2.4 million. North Shore, like most of the banks that had higher earnings, improved its net interest margin -- basically the difference between what a bank makes on interest from loans and investments and what it pays for deposits -- and held the line on expenses, said Steve Steiner, North Shore senior vice president.

The bank also stayed away from the kind of land development loans that have caused big losses for many other lenders, and concentrated on lending on its home turf of eastern Wisconsin and northern Illinois, said North Shore president and chief executive James McKenna.

"We're a pretty dull, conservative organization, and it pays off in times like this," McKenna said.

Waukesha State Bank's profits were up 22% to \$3.6 million as interest income from loans grew along with fee income during the quarter. At the same time, the bank's ratio of delinquent loans to total loans rose to only 0.70%, far below the state average of 1.96% for the period.

Traci Huntemann-Piatt, marketing director of Waukesha State Bank, said "consistent and conservative underwriting" helped the bank avoid the kind of loan troubles that have plagued many other banks. Waukesha State doesn't make loans outside Wisconsin, she said.

"We stick to what we've always done well and to what our focus has always been, and that is taking care of our customers, taking care of our communities and conservative underwriting," she said.

Johnson Bank, which is based in Racine, had a profit increase of nearly 20% to \$9.3 million in the quarter. One reason, said Richard A. Hansen, president and CEO of Johnson Financial Group, is that the bank never participated in subprime mortgage lending.

"We just always stuck to the regular underwriting standards," Hansen said.

In addition, Hansen said, as less-stable lenders have gone out of business, Johnson Bank has been able to increase its mortgage volume.

"The real estate professionals know that we know how to underwrite, and we close a loan when we commit to it," Hansen said.

Others among the 20 biggest non-specialty banks in Wisconsin to post an earnings increase were the Baraboo National Bank (17.5%), Oak Creek's Tri City National Bank (5.3%) and Fond du Lac's National Exchange Bank and Trust (1.8%). Profits rose for Milwaukee's Park Bank and First Banking Center in Burlington by less than 1%, according to the Federal Deposit Insurance Corp.

Banks that increased profits did it while also adding more money to loan-loss reserves to cover debt that could go bad, noted Jon C. Bruss, chief executive of Fortress Partners Capital Management in Hartland.

"If there is a theme, certainly there were higher provisions (for loan losses), but that was offset by increase in net interest margin and lower non-interest expense," Bruss said.

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