

# State's climate for banks improving

By Paul Gores of the Journal Sentinel  
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Most Wisconsin banks head into 2012 stronger than they were a year ago, but in a still-slow economy, big increases in lending and profits seem unlikely, analysts say.

Through the first nine months of last year, about one in eight state-based banks lost money. That's better than 2010, when one of every five was unprofitable, and 2009, when one in four didn't post a profit.

"I think the environment for banks has improved over the past year," said bank consultant David L. Donihue. "Bank earnings are improving. The charge-offs are coming down, the past-dues appear to be coming down. But I think it's going to be a couple of years before we get back to normal."

No state bank has failed since March, when regulators shut down Milwaukee's Legacy Bank. Over the past year, five banks had special sanctions lifted by regulators, while the pace of new regulatory orders slowed down.

However, more than 40 Wisconsin-based banks still are under special scrutiny, and while almost all are expected to survive, it's possible the state hasn't seen its last bank failure linked to bad real estate loans.

Community banks that have delinquent loans under control and have plenty of capital, which acts as a cushion against loan losses, will look to grow in 2012, said Jon C. Bruss, chief executive of Fortress Partners Capital Management in Hartland.

"Those guys are thinking about growth in a low-growth to no-growth environment. They definitely want to get bigger," Bruss said. "They know how to make commercial loans, they've got reasonably good commercial demand."

However, he said, community banks are facing more competition from big banks that are chasing quality lending opportunities in smaller-than-normal markets.

"By and large, the banks that are in good shape are doing well, but they're still concerned about the big banks apparently dipping down and cutting prices," Bruss said.

Rose Oswald Poels, chief executive of the Wisconsin Bankers Association, said the condition of banks generally reflects the state of the communities in which they operate.

"My forecast for 2012 is really that we're going to see similar trend lines to what we saw in 2011, which is slow, continued, positive progress," she said. "Every quarter more banks are profitable. In the third quarter of this last year, seven of eight banks were profitable. So the majority of banks are certainly doing fine, and overall, I'm confident the industry is stabilizing and that will continue in 2012."

John E. Rickmeier, whose Hartland firm, IDC Financial Publishing Inc., analyzes and ranks the strength of banks in the United States, said the overall condition of banks in Wisconsin is good.

"It's just a few spots where they got caught with a lot of delinquencies, and they can't get out of the box," said Rickmeier, who doesn't publicly disclose the rankings.

The problem for banks that are struggling is that the economic climate makes it more difficult to recover, he said.

"The only way that you can bail these guys out internally is to have growth, and you can't have growth without loan demand," Rickmeier said.

The state's third-largest bank, AnchorBank of Madison, has been operating under a cease-and-desist order from regulators since summer 2009 and continues to post quarterly losses. Analysts say, though, that because of Anchor's size - \$3.2 billion in assets - and respected new management, regulators appear likely to give it a lot of time to try to turn things around.

The weak real estate market continues to be a drag on banks, said Donihue, managing director of Maximizing Shareholder Value & Co. in Leesburg, Fla.

"There are still a lot of housing-issue problems out there right now, where people are still having a difficult time making house payments," Donihue said.

While consolidation in the banking industry is expected as banks face tougher and more-expensive regulations, few acquisitions have occurred so far.

If acquisitions do heat up in 2012 and large banks want to get bigger in Wisconsin, Wells Fargo and PNC Bank might be buyers, Bruss said. Among other acquirers could be Talmer Bank and Trust and Wintrust Financial Corp., which owns Town Bank in Wisconsin, he said.