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### Small U.S. Banks Rise Above Financial Turmoil

Community banks have cash to lend and solid customers



National Capital Bank of Washington assistant vice president Margaret Burness (sitting) talks to customer James Braswell.

By Judi Hasson  
Special Correspondent

Washington — Many U.S. banks are discovering that it pays to be the small fish in a big pond as economic turmoil grips businesses on Wall Street.

While their big-bank cousins have faced near-catastrophe in the recent market fluctuations, community banks report that they are healthier than ever. Most haven't suffered from the tight credit crunch and continue making loans.

"The reason they are in better shape is that they are much more conservatively operated than larger banks with higher capital," said Steve Verdier, a vice president of Independent Community Bankers of America, which has 8,000 member banks.

Unlike the marquee-named financial institutions that have collapsed in or been rescued from the economic upheaval, community banks have a few things going in their favor.

Most of them are locally operated. They range in assets from \$2 million to \$7 billion. Many are more than 100 years old, with deep roots in their communities. And community bank managers have been especially careful about who gets a loan. These banks "make loans in their community that people are in the position to pay [back]," Verdier said.

As the industry grew in the last 20 years, many larger banks took gambles in the kinds of loans they made and in choosing to whom they would lend.

Smaller banks, meanwhile, were driven out of the mortgage and credit-card markets because they did not have the work force or budget to carry on mass-marketing campaigns or to make giant loans. Bigger banks muscled their way to dominance due to the amount of money they had at their disposal.

"Community banks are privately held institutions or [owned by] a small group of stockholders. These are not companies being flipped and traded. There are long-term managers," said Arthur Wilmarth, a banking and finance professor at George Washington University Law School.

Take National Capital Bank of Washington, located in the shadow of the U.S. Capitol. It is a family-owned business that has \$252 million in assets and has never taken chances with loose loans, according to the bank's chief executive, Richard Didden.

In the last three weeks, Didden said, customers opened 133 new bank accounts, 10 times the usual number, as consumers looked for safe harbors to park their savings.

"We weren't the high flyers. We didn't make a lot of money when the bigger banks were making money," said Didden, whose great-grandfather, Albert Carry, founded the bank in 1889.

President Bush praised regional and community banks at an economic conference in Louisiana on October 20. "Community banks are strong, and they got good capital ratios, and they're healthy," Bush said.

"We weren't 'smart enough' to get into the silly things the big banks got into. That's what kept us safe," said Todd Grayson, vice president of South Central Bank in Chicago.

He describes the 43-year-old institution as a bank on "Main Street," with a \$210

million balance sheet and several thousand customers. "We don't have the capital to do a lot of things that other banks can do. We are very conservative in our lending traditionally," he said.

But today, South Central Bank's customers can get home mortgage loans and home improvement loans. "We lend to people we know," Grayson said.

"Community banks didn't chase high yields, which inherently imply greater risk," said Bob Wingert, president of the Community Bankers Association of Illinois. "They did not engage in the creation of exotic loans [or finance] mortgages with nothing down."

"They are better lenders. They are less engaged in writing fancy financial derivatives," said Peter Morici, a business professor at the University of Maryland and former chief economist at the U.S. International Trade Commission. "They don't need to pay their officers as much. They know how to make loans and get paid back."

Since the financial turbulence began, David Schroeder, president and chief executive of American Enterprise Bank, which has two branches in the northwest Chicago suburbs, has been fielding customer questions primarily from small businesses. "Are you lending money?" they ask.

"We have not stopped lending," Schroeder said. "We really never strayed off course, so not a lot of course correction is necessary."


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