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Bank & Thrift - Industry News

Banker opposition to higher capital levels hardly universal

EXCLUSIVE

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By [Kevin Dobbs](#)

It is hard to find a banker — anywhere — eager to champion more government involvement in the financial system.

But while the latest push from Washington — higher capital requirements — has big banks making noise, smaller community banks and even some conservative regional lenders are quietly endorsing the idea, or at least withholding judgment, saying such a move will have little impact on them, yet could help rein in excessive risk-taking at certain major institutions, the likes of which dragged much of the financial industry unwittingly into the mire of recession.

"Like us, a lot of the smaller community banks are probably already considered overcapitalized, or more than sufficiently well-capitalized, so I'm thinking it probably wouldn't have much impact on us," Bill Anderson, CEO of [First State Bank](#) in Hordville, Neb., told SNL. The bank Anderson heads in the rural Midwest had a Tier 1 risk-based capital ratio of about 18.30% at June 30, far above the regulatory minimum.

"Now, I'm sure there would be exceptions," Anderson added. "If you're somebody in the midst of trying to expand significantly, then all of a sudden needing to set aside more capital could obviously affect your ability to grow. But I think that would be the exception to the rule, and I do think that with some bigger banks, well, they do need more capital."

Those among the larger banks that remained conservative in the run-up to the recession also say they have few concerns about the matter.

"I don't know what the final number needs to be," but "I think we are going to be well-placed in a capital position that will require no additional requirements for this company," Richard Davis, chairman and CEO of [U.S. Bancorp](#), [said](#) at conference this month. The Minneapolis-based bank has a Tier 1 ratio of about 9.4%.

President Barack Obama and Treasury Secretary Timothy Geithner have called for banks to meet and maintain stronger capital levels, and FDIC Chairman Sheila Bair has thrown her [support](#) behind the idea. Though specifics have yet to be hammered out, regulators' recent moves at individual banks suggest the increases, if approved, could be significant.

[Harleysville National Corp.](#), for example, said in June that the OCC had given it higher minimum capital ratios for its Harleysville National Bank & Trust Co., including a Tier 1 risk-based capital ratio of at least 8% and total risk-based capital ratio of at least 12% — both two percentage points above typically accepted minimums.

Harleysville National, suffering under the weight of mounting credit losses, could not meet the new standards. In July, it agreed to [sell](#) itself in an all-stock [deal](#) to [First Niagara Financial Group Inc.](#)

In the wake of such developments, big banks such as [Bank of America Corp.](#) and [Citigroup Inc.](#) have expressed opposition, saying arbitrary hikes in capital would not only hasten the fall of struggling banks but would also cut into bank earnings in general and put larger-cap companies specifically at a competitive disadvantage against their international peers.

Some on Wall Street say, with banks still struggling to emerge from the depths of the downturn, now is not the time to take steps that would diminish earnings.

Christopher Whalen, managing director of Institutional Risk Analytics, wrote in a September commentary piece posted on the company's Web site that, before federal authorities raise capital requirements, "they need to understand that the earnings of the banking industry are going to be impaired for years as the cost of resolving failed banks is repaid."

"Restoring solvency is the first issue for many banks, then we can talk about increased capital and restrictions on risk taking equally," he continued. "And as the banking industry shrinks defensively in order to conserve capital and fund liabilities impaired by realized losses, the credit available to the U.S. economy also shrinks. You can't have economic growth without credit growth."

Steve Brown, the president and CEO of [Pacific Coast Bankers' Bank](#), said community bankers, while perhaps not as vulnerable to higher capital levels as their larger counterparts, are nevertheless "frustrated and exhausted" with mounting government intervention in the banking industry.

"The real concern, I think, is that bankers keep hearing how important it is to make loans, but the actions they see from the government run counter to that," Brown told SNL. "Banks are trying to dig out of the hole," he continued, referring to the recession, "but as they do they keep getting more dirt shoveled on them."

That is true, said the chief executive of a community bank in the Northeast. But the banker, who asked not to be named because he

did not want to attach his bank's name to a controversial topic, told SNL that capital requirements have not been "seriously reviewed for years and years. And if we've learned anything from the meltdown of last year, it's that with the passage of time and the growing complexity of our system and our products, capital standards need to be reviewed and may well need to be reset."

He said large-cap banks are sure to mount a fight against such a move because they view it as a tax on their future growth. But he said it may ultimately be necessary for the future stability of the industry, calling unchecked growth the impetus of the latest financial meltdown.

"The big boys, those that got bailed out, they'll be flying down to Washington in their private jets to fight this tooth and nail. They won't like it at all, no matter what form," he told SNL. "But if you're a plain vanilla community bank that has no appetite for excessive risk, which is what most community banks are, it's probably not going to hurt you much, if at all. And it could actually help you, leveling the playing field by telling the big dogs that they can't compete by exposing the whole industry to the kind of risk that crippled the financial industry."

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