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Outlook 2009: Commercial banking in New Hampshire

April 29, 2009 - Northern New England

The deteriorating state of the current economic environment throughout the United States has been well documented over the last several months. The Federal Reserve recently stated that all 12 of their districts have reported a weakened economy with only the Boston district noting signs of stabilization since the last report but still down significantly year over year. In New Hampshire home sales and values are down while residential mortgage delinquency and the number of foreclosures are up. These factors combined with the slow-down in consumer spending has brought with it significant changes in the New Hampshire banking environment.

Specifically, banks are being much more diligent in their decision making as their appetite for risk has been lowered. I will say, however, that this change is not as sudden or dramatic as it first might appear. A colleague of mine, who has been in the New Hampshire banking community a little longer than my twenty years, said to me recently, that he views these changes as having been evolving since the State's last big recession of the late 1980 and early 1990s. As I thought about what he said, I think he may be right. In the 1980s most of the banks in the State of NH were basically the same in terms of asset size, legal lending limit and their desire to put new found capital to work in the form of business, construction and development loans. These similarities helped fuel the competitive juices of commercial bankers and resulted in lowered credit standards and a glut of product in the market. All the banks were the same size with the same goals and after the same customer. I don't have to tell most of you what happened next. In 1991 five of the seven largest banks in the State were seized and closed by the FDIC in a single day and we spent the next five to seven years working through the excess inventory that was left behind in the wake.

The result of this from a New Hampshire banking perspective is that this was the beginning of a changing landscape. These changes have included the fact that banks have consolidated and continue to consolidate causing the size disparity to grow between the big banks and the smaller community banks. This change is significant as banks have identified their "customer niche" and have worked hard to differentiate themselves from each other with those desired customers. Additionally, the banking industry as a whole has tightened its under-writing standards. Let me clarify, I am speaking here in terms of traditional commercial banks not "investment banks", "non-bank lenders", "conduit lenders" or the like. These non-traditional lenders do not appear to have learned from the sins of the past and we are all now paying for their repeat offenses.

The fact that New Hampshire bankers did learn from the sins of the past and have been working under good solid credit standards means that New Hampshire is really in much better shape economically than many other parts of the country. Some days, I know, it does not feel that way but it's true and when things start to turn around nationally, which I feel they already have begun, New Hampshire is going to rebound quickly. Warning: bankers are going to continue to be cautious. However, saying this, the banking community is going to have to remain diligent in not being too

cautious as the positive flow of credit will be an instrumental part in the economic turn-around. In closing, borrowers of solid personal character with a sound business history and a well thought-out and developed plan for the future should be able to find a bank that meets their needs with competitive terms and conditions delivered with a high level of customer service. David Cassidy is the executive vice president and senior lending officer for Centrix Bank, Bedford, NH.

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