

Local bankers: 'Conditions haven't reached a point of panic, despair'

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For consumers in Northern Michigan and elsewhere, the recent meltdown in parts of the financial sector has meant questions about credit availability and the viability of investments.

Around Northern Michigan, several with backgrounds in banking, investments and economics note that conditions so far haven't reached a point for panic or despair. But some note that difficulties could expand if current trends continue.

"I think consumers are having a harder time getting loans on about everything," said David Farley, a Petoskey-based financial adviser with the Grannis Farley Wealth Management Group of Raymond James & Associates. "The lending standards for mortgages have risen significantly, although probably back to historic levels. The same can be said on purchasing cars. The car leasing market is much smaller than it was a few years ago, thus making it much more difficult for consumers to obtain these leases."

But as some local vendors see it, opportunities for borrowers with solid credit haven't faded away. "For many of our borrowers, little has changed," said Robert W. Clarke, chairman and chief executive officer of Harbor Springs-based First Community Bank. "For residential mortgage loans that are frequently sold in the secondary market, there have been many adjustments because the secondary market is going through dramatic changes."

But all in all, Clarke noted that prospects for borrowers with solid credit standing haven't changed dramatically at local lenders.

"For customers with average or better credit, the changes have been much less dramatic," he said. "Personal loans and mortgage loans are still very much available. The same is the case for business owners who have maintained a solid credit history."

Clarke noted that community banks tend to take a different approach in evaluating loan applicants compared to some of the industry's larger players.

"Community banks generally know their customers and review the credit requests differently," he said. "Larger banks tend to rely on formulas or computer models to score requests. The different is that community banks are more flexible with loan requirements and often provide faster responses."

Bob Bleyaert, president of The Bank of Northern Michigan in Petoskey, said his institution has largely avoided the problematic lending arrangements that have recently been making news.

"We haven't had to change our underwriting guidelines significantly since we opened the bank in 2000," he said, noting that clients continue to make payments in the normal way and that people with good credit still have borrowing options available.

As relaxed standards began to appear in the industry for certain housing loans around 2005, Bleyaert said his bank sensed these

could be problematic and "made a conscious decision to avoid these kind of loans."

Clarke said it's tough to tell whether the upheaval that's been affecting some larger financial institutions would mean any spillover changes for banks like his.

"We are in a very unusual time in our financial history, and it's simply not possible to fully evaluate our future challenges," he said. "Many of the lending programs and past practices that caused the problems we now face were poorly designed and simply not based on sound lending practices. The providers of these loans are no longer in business and that is good for our economy."

Clarke added that "if the economy deteriorates further, there will be additional credit tightening in all areas of our economy."

Locals familiar with the credit-card industry don't expect abrupt changes in approval standards or standard interest rates.

But some note that card providers seem to be taking more steps to protect themselves against losses. If a cardholder fails to make a timely payment, it's becoming more and more common for companies to change higher interest rates – sometimes in the 30 percent range – for defaulting on the account.

Farley, who noted that his perspectives on financial trends reflect his own views rather than a Raymond James corporate position, believes the Bush Administration's proposed approach for shoring up the financial sector – a multibillion-dollar federal acquisition of troubled mortgages from the financial sector – could be a step in the right direction.

"You probably need to get banks loaning money to each other before it eases credit on Main Street," he said. That said, we are probably going to be in stricter lending environment for a long time due to the lessons learned in this crisis as well heightened government regulation of the lending and financial markets.

"As far as the necessity of the Bush plan, when I see professionals like Hank Paulson, Warren Buffett and Ben Bernanke saying that it needs to happen, I tend to believe them. As far as alternatives, there are an endless number of possibilities, the greater questions seems to be whether it can be devised and implemented in the necessary amount of time."

Sam Williamson, a retired Miami University (Ohio) economics professor who lives in Charlevoix, noted that the plan continues to evolve. In recent days, he said the proposal has taken on beneficial features, such as additional accountability and restraints against pay windfalls for financial executives.

With the legislation – and credit situation in general – still subject to change, Williamson said it's hard to tell the ultimate results for the economy. But with no major implications so far for the mortgage or credit card rates, he suggested it may be a good time for consumers to take a breath.

"There may be problems," he said. "It's not the end of the world at this point. It's evolving."

Farley and another local financial advisor – Bob Waldvogel,



who's affiliated with the Edward Jones firm – both have had numerous clients inquire about how the downward trend in financial markets would affect their investments. And both advisors said they tend to direct clients' focus toward the long term.

"For the most part, the market is having a typical correction," Farley said. "The causes are always different, but the basic scope of the correction is what we've seen in past bear markets."

Waldvogel said Edward Jones' philosophy for money management has three key elements – investing in firms that offer quality products, sound management and well-defined growth strategies; maintaining a diverse portfolio mix; and keeping one's eye on longer-term financial goals.

If one's portfolio is dominated by a particular investment that's hit by a downturn, he noted that suffering will follow. To balance against volatility in the U.S. stock market, Waldvogel said investments such as international stocks, CDs, treasury securities and others can be helpful parts of a portfolio.