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Gulf Shores mayor tells Congress that bank regulators are hurting Alabama coast oil spill recovery

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Mary Orndorff -- The Birmingham News



(Press-Register file/Ryan Dezember)

Gulf Shores Mayor Robert Craft is telling the U.S. House Financial Services Committee this morning that tough-minded federal bank regulators are threatening the ability of Gulf Coast banks to rebound from the impact of the oil spill. (Press-Register file/Ryan Dezember)

WASHINGTON -- Bank regulators should accept real estate values on the Alabama Gulf Coast at their levels before the oil spill in order to allow local banks to stabilize, Gulf Shores Mayor Robert Craft told Congress this morning.

"Our banks have had federal bank examiners force them to write off millions of dollars in performing loans that are current on the basis that the underlying collateral has lost value since the oil spill," Craft said. "This makes no sense. It just makes recovery of the region that much more difficult if not impossible."

Craft is testifying before the House Financial Services Committee in a hearing on the national slow down in the commercial real estate market.

Rep. Spencer Bachus, R-Vestavia Hills, is the top Republican on the committee and warned that the struggles of banks on the Gulf Coast could spread to the rest of the country.

"The bank regulators need to give these banks some breathing space. And, in the long run, this will reduce the cost to the taxpayer by saving many of these banks and also allow our area economy to recover," Craft said.

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Everything Alabama

Oil spill could sour loans, pressuring banks

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Jeff Amy, Press-Register



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Press-Register/Ryan Dezember)

The oil spill has led many banks to wonder whether borrowers harmed by the spill can make their payments. Some banks are restructuring loans.

It's not just businesses that are sweating the effects of the Gulf of Mexico oil spill. Standing in the background, their lenders are a little fidgety, too.

Many banks along the coast, particularly in Alabama and Florida, were already saddled with bad loans following the real estate bust. Now, they have to wonder whether borrowers harmed by the spill can continue to make their payments.

Some banks are beginning to restructure a trickle of endangered loans, according to bankers interviewed by the Press-Register.

The key questions are whether customers will collect sufficient money from the BP PLC claims process, and how much wiggle room that regulators will give banks to help out their borrowers.

"The first immediate need is to have BP start writing checks," said Gulf Shores City Councilman Jason Dyken, who is leading a committee exploring spill-related credit problems. "That process will fix most of this problem."

When the oil spill hit, banks moved to take stock of how many loans they had made in affected areas and industries.

"We encouraged them to look through their portfolio to get a sense of what their exposure is," said Trabo Reed, Alabama's deputy bank superintendent.

Big lenders, like Regions Bank and the Wachovia Bank of Wells Fargo & Co., rolled out public relations messages, publicizing customer assistance teams honed after 2005's Hurricane Katrina and the real estate bust.

"We've had a lot of customers just coming in to talk about it," said Leigh Collier, who heads Wachovia operations on the Alabama coast and in Mississippi.

Collier added, "No one's said, 'I'm coming to turn in my keys because I can't pay my bills.'"

Royce Cumbest, the president of Merchants & Marine Bank in Pascagoula, said that businesses in his area may have benefited overall, thanks to cleanup contracting.

But for sport fishing and tourism enterprises, the timing "could not have been worse," said Joey Ginn, president of Vision Bank. "A lot of people generate their money from Memorial Day to Labor Day."

Vision, a Florida-based arm of Park National Corp., operates in Baldwin County.

Joel Daves, head of Mobile operations for Regions, said "a very small number" of customers had cash-flow issues while waiting for BP to start writing claims checks. He said Regions made arrangements with them, and has yet to see lasting problems.

Some banks, including Hancock Bank and Whitney National,

Here are estimates from some regional banks about the size of their loan portfolio exposed to areas and industries affected by the oil spill and offshore drilling moratorium. In all cases, banks expect far less than the total amount of loans to go bad:

Regions Bank: \$3.1 billion in exposure; worst-case losses, \$100 million.

BB&T: \$2.5 billion in exposure.

Whitney National Bank: \$1.07 billion in exposure, set aside \$5 million to cover possible losses.

Synovus Financial Corp. (Coastal Bank and Trust): \$1.47 billion in exposure

Hancock Bank: \$136 million in exposure. The bank said that \$26.1 million in loans could be negatively impacted, and set aside \$5.2 million to cover possible losses.

have begun to set aside money, expecting loan losses from the spill or the offshore drilling ban.

Iberia Bank: \$183 million in exposure.

Ginn said that Vision has restructured loans for some customers, with a range of options such as temporary interest-only payments or longer repayment periods.

Source: Press-Register research

Gulf Shores Mayor Robert Craft testified before the House Financial Services Committee on July 29 that state and federal agencies need to loosen the reins on banks so they aren't forced to choke off borrowers.

Craft said that regulators have at least twice forced banks to mark down a loan for which payments were current, based on an appraisal that showed the value of the real estate securing the loan had fallen since the spill.

In such a case, a bank could demand money from the borrower to hold as collateral, refuse to renew a loan or renew it for a smaller amount.

Asked about the Craft testimony, Tom Dujenski, the regional administrator for the Federal Deposit Insurance Corp., said, "That's not the guidance our examiners are following."

Dujenski said, "We do not write down performing loans that are properly underwritten."

He said that regulators want banks to be flexible in their approach, and that new appraisals would not be required to renew loans if no new money were borrowed.

U.S. Rep. Spencer Bachus, R-Vestavia Hills, is asking federal agencies to issue written guidance so banks will feel safe to loosen up.

"We actually are urging them to declare a moratorium, for a period of a year, on declaring write-downs of loans based on appraisals," said Bachus, the ranking Republican on the House Financial Services Committee.

Dyken, who accompanied Craft to Washington, D.C., said he'd like to see the federal government go further, instructing banks to let borrowers defer or stretch out payments and cut interest rates. "For our long-term survival, our businesses don't need more debt," he said. "We just need to restructure debt we have."

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Insight: How regulators are making a bad situation worse

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Press-Register Editorial Board

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Special to the Press-Register

Late last month, Gulf Shores Mayor Robert Craft and Herb Malone, head of the Alabama Gulf Coast Convention and Visitors Bureau, testified before committees of the U.S. Congress about the effects of the BP oil spill on coastal Baldwin County.

Craft testified before the House Financial Services Committee, directing much of his testimony at issues that have arisen between local banks and bank regulators in the wake of the spill. The regulators' actions, he said, have resulted in constricting the availability of bank credit for coastal businesses at a time when virtually all of these businesses are scrambling to survive because the spill drove away tourists — and tourists' dollars — just at the time of year that ordinarily generates their highest levels of revenues.

In his testimony before the Subcommittee on Commerce, Trade and Consumer Protection, Malone cited a study conducted for the Alabama Department of Tourism, which found that in 2009 tourism generated some \$2.3 billion in direct spending in Baldwin County.

He testified that he expects the coast this year to lose half or more of the "high-season" spending — a loss of between \$850 million and \$1 billion.

Unfortunately, some of the actions being taken by bank regulatory authorities are needlessly exacerbating an already difficult situation and putting the region and its financial infrastructure at further risk.

The banking agencies need to give serious consideration to providing temporary relief in three areas:

1. Easing agency-imposed requirements that banks must obtain current valuations of real property located in areas affected by the spill.

✎ Postponing for 18 months any requirement by regulators that a bank affected by the spill must raise new capital.

✎ Providing affected banks an extended period for amortization of loan losses incurred since the spill.

Among the most immediate effects of the oil spill has been a virtual paralysis of real estate markets in coastal areas. The Press-Register reported a study last month by a Gulf Shores real estate firm that showed that the dollar volume of property sales in Orange Beach, Gulf Shores and Fort Morgan in May and June of this year was more than 36 percent below the level of sales in the same two months in 2009.

Once the crisis passes, as is expected in the coming months, the market should rebound. As noted by Mayor Craft in his testimony, this is the position taken by Kenneth R. Feinberg, administrator of the BP claims fund, who has said that he expects that losses in property values generally will not be compensated because they will be only temporary.

The reliability of current property appraisals conducted in the present environment on the coast is open to serious question, yet regulators continue to require bankers to obtain a current appraisal of property in coastal areas whenever the most recent appraisal on file is more than a year old.

Such appraisals are required for banks' "other real estate" (which generally includes properties acquired through foreclosure or in settlement of debt), and of some of the properties that secure outstanding bank loans when regulators consider such property to be located in a "distressed" area.

If a current appraisal shows a decline in the value of "other real estate," the bank is required to charge that decline against its earnings, which also reduces its capital. If an appraisal shows that the value of property that secures a loan has declined, the effect is less certain because other factors will come into play.

If, however, the regulators conclude that the decline means the loan no longer is adequately secured, then, unless the borrower can provide additional collateral, the bank probably will be required to increase its loan-loss reserve, again reducing its earnings and capital.

Rather than imposing such harsh results on banks as a result of temporary declines in property values, regulators should consider declaring an 18-month moratorium, until the current spill-affected market stabilizes, on requiring write-downs in the value of "other real estate" solely as a result of a current appraisal.

In addition, the agencies should direct their examiners that, if current valuations of property held as collateral are to be used for any purpose, the present circumstances of coastal real estate markets should be carefully weighed and considered in determining what use properly should be made of such valuations.

Just as real estate markets on the coast have experienced disruptions because of the spill, the capital markets for businesses in coastal areas also have virtually closed, as investors have made it clear that they will not be

prepared to commit funds to enterprises in coastal areas until the impact of the spill is better understood.

In such an environment, capital-raising efforts by banks in coastal regions — those headquartered in any county within 100 miles of the Gulf, and those that receive 25 percent or more of their deposits from such counties — are unlikely to succeed.

Regulators accordingly should postpone, for 18 months, the effective dates of any deadlines previously imposed on any such bank for raising new capital, except in the case of a bank deemed "systemically significant." And the agencies should refrain, for 18 months, from requiring such banks to engage in new capital-raising activities.

Lastly, coastal banks are facing increased loan losses as a direct result of the oil spill.

A quarter of a century ago, when the nation's agricultural sector was experiencing a crisis that had drastic effects on many banks serving agricultural customers, Congress acted to provide relief to ease banks' agricultural losses.

A provision in the Competitive Equality Banking Act of 1987 allowed qualified agricultural banks to amortize losses incurred on agricultural loans, in any year from 1984 through 1991, over a period of up to seven years, so long as there was no evidence that the loss resulted from fraud or criminal abuse by the bank.

Members of Congress representing coastal areas of Alabama, Florida, Louisiana, Mississippi and Texas attended a meeting last month in Washington with senior officials of the federal bank regulatory agencies, which was convened by House Financial Services Committee Chairman Barney Frank, D-Mass., and Ranking Member Spencer Bachus, R-Ala. The purpose was to discuss potential means of providing relief to banks affected by the oil spill.

Several of the Congress members at the meeting reportedly are considering steps to provide banks in coastal areas temporary relief, possibly including an extended period for amortization of loan losses incurred in the period following the spill.

The objective of the measures proposed above is to allow the banks that operate on the Gulf Coast some time, and perhaps some breathing room, to cope with the current financial stresses.

That also could include giving banks time to absorb the losses that inevitably will follow, while maintaining their ability to provide financing to creditworthy businesses and borrowers who will need to have credit available in order to survive now, and to recover and restore their ability to regenerate the tourist economy in 2011.

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