THE JOURNAL RECORD

Finance

Analyst sees recovery in bank lending

May 5, 2009

TULSA – Despite popular belief, banks continue to write commercial loans, although at a slower rate, according to analysis by Oklahoma City firm Tim Johnson Investment Management.

Vice President and Portfolio Manager Edward L. Schrems also suggested the national recession may already have bottomed out, capturing the optimism growing in Wall Street.

"The slowing is slowing," he said Monday. "We're probably getting past the inflection point."

The Schrems report flies in the face of experiences from many business executives, especially in the real estate industry. In a recent Journal Record gathering of Tulsa-area brokers and contractors, several voiced strong concerns about the unavailability or increased difficulties in obtaining credit.

"The banks are flush with money but they're not lending," said Sperry Van Ness office market broker Howard Wolf. "There's still a tendency to hold back."

While lending has slowed noticeably since October's financial meltdown over the last six months, Schrems charted Federal Reserve data showing commercial and industrial loans at commercial banks remain up about 5 percent from a year ago. Total consumer loans have increased almost 10 percent.

"It is not necessary for this to turn up for a recession to end," said Schrems, the former senior portfolio manager and director of equity investments for Liberty Bank and Bank One of Oklahoma. "Indeed, it doesn't usually turn positive until after the recession is over."

Those points follow what Dee Sokolosky observed as president and chief executive with First Bank of Owasso.

"Credit-worthy borrowers are still able to obtain consumer credit," he said Monday. "Banks are still lending. What has dried up is the securitization of poor credits. Bank capital is also still relatively strong. Ours is as good as it has ever been."

Bruce Jones, managing director of ClearRidge Capital of Tulsa, credited the prudence of Oklahoma bankers, building strong loan portfolios based on better lending practices than their coastal counterparts.

"There are local banks with strong balance sheets that are actively looking for loan opportunities," he said.

But the cost of obtaining those loans has increased dramatically, he said.

"While the lending rates may be competitive, costs are several times higher to get the loan approved," he said. "For example, if it cost $25,000 in closing costs a year ago, 'market rate' could now be charging $75,000 or more to get the loan funded. Although costs are considerably higher now, companies may need the credit to survive or continue to grow."

Mark Poole disagreed. While Tulsa's Summit Bank has seen a decline in its commercial loan volume, its president and chief lending officer pinned that more on business leaders deciding not to take on more debt at this time. He said the cost of those loans has declined.

"I get a little frustrated when I read national newspapers saying we're not lending," said Poole. "The cost of capital is extremely inexpensive, even compared to 24 months ago, when we had the prime at eight and a quarter. The prime has come down from eight and a quarter to three and a quarter. Overall, the costs of debt have come down."

Jones also said the Fed data Schrems tapped does not show the whole picture. He cited recession trend research by the Federal Reserve Bank of St. Louis indicating most commercial and industrial lending declines come within a year of the recession's perceived end.

"If you take a look at commercial and industrial lending rates in the last 50 years, history suggests there are big falls on the way," he said. "Astute business owners are not waiting for tougher times ahead, but are sourcing replacement debt refinancing today."

That parallels some analyst concerns that the recession may continue through 2009, and perhaps well into 2010. Those observers fear Wall Street may lose its recent 30-percent run-up in a summer slump.

"We're going through what I consider to be the eye of the storm," said University of Oklahoma economist Bob Dauffenbach.

Dauffenbach said when he sees lending figures such as Schrems quoted, he wonders not about the numbers, but the variance – the spread between healthy to vulnerable loans, for example. With many households still overleveraged or faced with jobs in peril, he fears the next round of housing problems could lie just around the corner.

"There's just a limit to what the Fed can do," he said after crediting the regulators for their creative stimulus programs. "A lot of the recovery rests on getting the consumer back in the game. I just don't see it."

Schrems acknowledged some of those fears, noting how the nation's unemployment rate has exceeded all but two post-World War II recessions. But he considers that a coincident economic indicator, one that may continue to rise even as the economy enters the recovery stage.

"The unemployment rate always peaks after a recovery is in process," said Sokolosky. "Many economists believe the recession bottomed out late in the first quarter of 2009 or in this second quarter, but the unemployment rate will likely still increase until businesses are confident enough in the recovery to begin

hiring again."

Copyright © 2009 The Journal Record All Rights Reserved
101 N. Robinson Ave., Ste. 101, Oklahoma City, OK, 73102 |
P.O. Box 26370, Oklahoma City, OK, 73126-0370 | (405) 235-3100
415 S. Boston Ave., Ste. 101, Tulsa, OK 74103 | (918) 295-0098