

Gillette banks remain healthy

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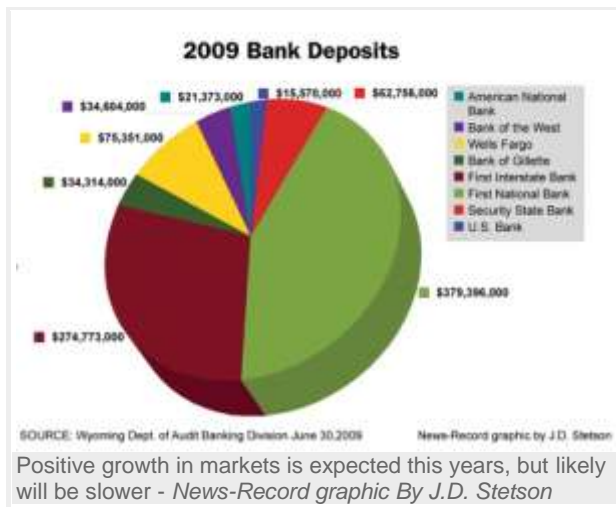
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If the health of a community is measured by the financial standing of its banks, then Gillette's health is good — very good.

Deposits in Gillette bank branches totaled more than \$898 million during the last Federal Deposit and Insurance Corp. reporting period at the end of June. It was a 10 percent increase from 2008 and a 57 percent increase from 2005.

The change in deposits shows how fortunate the community has been amid the economic boom of the last decade.

Gillette's economy now may have dialed back from what it was only a few years ago, but its banks are still solid and still are expected to grow.



Why is the status of banks important?

Most of the bank deposits come from the dollars earned by workers and businesses in a community. In order to expect growth in banks, the banks count on the community to provide that growth.

But it won't be a rapid growth like the past few years.

First National Bank has the majority of Gillette's deposits with \$380 million.

The bank has strived for 5 percent growth each year, and it has surpassed that figure the last few years. But reaching the same goal in 2010 may be more difficult to pull off, said Sam Saunders, president.

"I'm not sure that the revenue is out there for municipalities or the consumer and that margin (for businesses) will be tighter than the last five years," Saunders said.

First National Bank's loan-deposit ratio, or amount of loans made during the year divided by the deposits, was about 39 percent in June.

The ratio is misleading because a substantial portion of the deposits are government funds, which are not allowed to be loaned.

The ratio for deposits that can be loaned is much higher, but it is a little less than where the bank would prefer it to be, Saunders said.

Good service and practical and prudent lending practices contributed to the bank's success, he said. Those practices will help the bank continue its success.

"People will hopefully recognize that and we can continue our growth pattern — even in the slower economy," Saunders said.

How will regulation affect banks and the community?

After the financial meltdown and credit crisis, banks nationwide reverted back to prudent lending practices similar to what they were in the late 1990s.

Loans are harder to get now because banks face tougher regulations from Congress and regulatory agencies.

"The horse is already out of the barn. They (regulators) missed the boat with the big banks and we'll pay the price and suffer the repercussions of what's already happened," Saunders said.

The banks also have had to pre-pay their Federal Deposit Insurance Corp. member dues three years in advance in order to help the government-backed deposit insurance account.

Also, banks have little incentive to lend as long as the Federal Reserve keeps letting them borrow money at 0 percent interest, said Matt Burgess, market president of Gillette's American National Bank, which had \$21 million in deposits last year. The banks can take the money from the Fed and buy 10-year Treasury bonds, which have been running at 3 percent interest, and make a profit.

But many of Gillette's banks are more interested in finding loans to help the community rather than sit on their money and wait. Banks are a for-profit business and most of their profits come from loans.

Burgess admits that good, solid loans aren't as abundant as they once were. But Gillette banks still must continue to offer loans during an economic slowdown.

Burgess, who became bank president in October, described the bank's relationship with the community as a circle:

- **Community growth:** The banks make loans that provide jobs, infrastructure and development.

- **Higher demand:** The community grows, which increases the demand for loans.

- **Disruptions:** When the bank's ability to loan is disrupted or there is less growth, there is less demand for loans. Some loans still would be offered, but likely would require more money upfront.

Banks now are less likely to take risks on loans because there are too many unknown disruptions on the horizon — regulatory environment, Federal Reserve interest rates and the number of people willing to pay more money upfront to lessen the bank's risk. That, in turn causes less growth.

"There's a yin and a yang to all of this that begins and ends with the consumer and the bank," Burgess said.

What will banks watch?

New construction and development are the key areas to watch, Burgess said.

In the past few years, Burgess saw development at every corner. But the recent drop-off in development can lend itself to new opportunities in existing markets.

"I think these are unprecedented times and, to look into a crystal ball ... I will say this, if you are prepared, 2010 is going to be a good year for you. If you are ill-prepared, 2010 is going to be a tough year," he said.

By prepared, Burgess means people who have access to cash or credit and will be able to capitalize on market investments that inevitably will turn into bargain deals during the recovery.

In 2010, Security State Bank President Kent Levi expects potential growth for banks in almost every economic area, with the single exception of the coal-bed methane industry.

While he thinks the gas industry will be fine in the long term, he notes that the regulatory climate and market uncertainties now hinder the potential growth for banks in that area.

Levi notes that his bank is active in areas such as real estate, minerals, small business and government.

"We have many industries that are still strong and widespread throughout Campbell County," he said.

What is the outlook for 2010

In 2010, the banking environment will get more competitive as the smaller banks continue to grow and lure customers away from the other eight competing banks.

More banks, which are rumored, could have less than ideal impacts for the existing banks.

"I personally would hate to see the pie cut up to where it would be too diluted, but I think right now it stands fine," Levi said.

Security State is confident in its loan portfolio, which doesn't have many "problem loans," he said.

In 2009, the bank was involved in more mortgage lending than in 2008. The branch's loan-deposit ratio now stands at 45 percent, which is below prudent banking guidelines, he said.

"Do I perceive that the economy is going to be real slow this year? No, I don't," Levi said. "I think it's still going to be a solid business opportunity year for banks in the area, but I think it's going to have to be one where banks will have to be prudent and cultivate and monitor loans probably a little more than they have in the past."

Those core principles are inherent in a community bank model, which has allowed First

Interstate to be unaffected by the national financial crisis, said Les Mahon, president. First Interstate had the second highest deposits — \$274.7 million in 2009.

The new regulations imposed on banks have had little effect on the bank because it has not varied from its original requirements for loans.

"We're still doing loans every day," Mahon said.

Mahon admitted that the process has become slower than in the past, but customer need has counterbalanced any extra steps for the bank to become compliant with regulators.

"Community-based banks have a huge interest in serving their markets," Mahon said.

Skeptical borrowers

Overall, the consensus among Gillette bank presidents is that there will be positive growth in the markets, albeit at much slower growth.

One of Gillette's newest branches actually is an old bank.

First National Bank opened a branch office in the RC Ranch subdivision last year as a convenience for its customers in the southern portion of the city.

At the time, the main bank downtown saw a decrease in deposits, but it has since recouped what it had lost, said Rick McElroy, senior vice president.

The bank expects the branch to continue to grow despite the economy and calls for a 30 to 40 percent increase in deposits.

But those increases depend on customers.

"We have money to lend," McElroy said. "But one of the challenges is that our customers are not interested in borrowing because they're uncertain as to what's going to be happening, or they just choose not to borrow."

"The political climate and the environmental climate just tends to make the problem that much more challenging for our customers," he said.