

The Killeen Daily Herald
Community banks not stressed

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There's a constant fear in these times among people who have to keep money flowing that the economic storm clouds, illuminated by the news, will make people want to bury their treasure in the backyard or else spend it on things they can pay for immediately or sign for them on a credit card.

Local Realtors and homebuilders were worrying through 2007 that news about nationwide foreclosure rates would stop anyone even remotely cautious from buying homes, even the large percentage who qualify for federally backed loans in the area, and the measured and predictable market slump caused by the long deployment of the 1st Cavalry Division made it impossible to test that fear. They keep wanting to tell people that the presence of Fort Hood stabilizes home prices in the area, adding that most of Texas has escaped the bust because of its booming economy.

Now the community banking industry is weighing in because of fears of a public perception that lending institutions are reaping the bitter fruits of recklessness and going broke. Some are, but what caused the mess was the rampant practice of sub-prime loans, particularly those with adjustable-rate mortgages, and the community banks—locally-owned, with mostly local business—never got into those.

"We want people to turn away from Wall Street and return to Main Street," said Union State Bank president Coleen Beck. "Our bank has made no sub-prime loans at all, and we have money to lend. We also want people to turn to us when they get into trouble with ill-advised loans from any source, because **our business is long-range relationships with local customers. We've been strong all along, and we remain that way.**"

She was speaking as a member of the Independent Bankers Association of Texas, to which USB and most other Killeen, Harker Heights and Copperas Cove banks belong, including Extraco Banks, First National Bank of Killeen, First National Bank Texas, First Texas Bank, Fort Hood National Bank, The National Bank of Central Texas, and United Central Bank.

USB was founded in Florence in 1928 and made it through the Depression. Still headquartered in the same little town, it has branches now in Killeen, Georgetown, Liberty Hill and Round Rock, with a new branch in a temporary building in Harker Heights.

"What happened was that nationwide banks and other lenders made all these loans to people they neither knew nor cared about and then sold the mortgages in bundles to other institutions," she said.

When the customers' lack of credit-worthiness and the skyrocketing adjustable rates caused waves of foreclosures and depressed prices, mostly in other parts of the country, foreign banks started picking up the worthless bundles "at fire-sale prices," she said. "So they have that much more American property.

"But community banks have not been involved in that," she said. **"Our links to local commerce are strong and long-standing. Our customers are our neighbors, and we can help right now with mortgages, refinancing, and with life plans."**

Mortgage broker Susan Jones of Heights Mortgage Connection said that most foreclosures in this area seem to be due to adverse life events such as divorce, job loss or disability because most loans here are Veterans Affairs or Federal Housing Administration. Major causes where conventional loans and economic instability are more prevalent, according to testimony by Dr. James Gaines of the Texas A&M Real Estate Center to the Texas House Committee on Financial Institutions, include falling home prices, loose credit underwriting standards, a high number of investment buyers, spikes in property taxes and utilities, high unemployment and fraud and predatory lending practices.

Some people eligible for federally backed loans will select conventional loans instead, sometimes because of a misconception that a VA loan is only one-shot, and sometimes for a variety of other reasons.

Where home prices are falling below a buyer's purchase price, refinancing or selling may not be an option. Since they are not doing that here, many options remain on the table, but many homeowners need help in sorting them out.

But Jones said most foreclosures anywhere are on homes in the range of \$100,000 to \$150,000, with mortgages held by young people without much money or life experience. "Mortgages in the range of \$200,000 or more are held by older people experienced in financial matters, usually with a variety of resources and two or three incomes," she said. "They know better how to handle things and when to ask for help."

Local Realtors a couple of years ago were noting that people were buying homes at the top of what they were allowed. If they qualified for \$150,000, they wouldn't settle for less, and the attitude seemed to reflect a belief that the economy was chaotic and unpredictable, so austerity seemed ridiculous. Some wished their clients would be a bit more balky but couldn't change their minds.

"People were buying bigger houses than they could sustain," Beck says now, "and now some are handling their credit problems by walking away from homes. However, that will ruin their credit forever. If they come to see us, we can find the best solution their circumstances will allow and save them a lot of grief.

"It's good in one way that there's a lot of anxiety now, because people need to be more frugal than they have been."

Union State has been in the same family since its beginning. Coleen Beck's mother, Eula "Sis" Beck, who still chairs the board, said, "Community banks will carry through as long as the customer has confidence in us. We want people to have faith in how we handle what they deposit with us." She said the bank supports employees' continuing education and cross-trains to increase the general competence. The bank emphasizes continuity. Some employees have been there 50 years, some 20, and some seven, so there's a continual blending of generations.

"Some banks turn over 50 percent of their personnel a year because of over-the-moon goals that burn people out," Coleen said. "We just don't do that."

USB is also a member of the nationwide Independent Community Bankers of America, whose president, Camden Fine, said, **"Wall Street may be suffering, but Main Street's community banks are in solid shape and open for business. Community banks are the foundation of our nation's diversified financial system. A credit crunch like we're seeing now is exactly why the nation needs the community banking industry, to ensure that credit remains consistently and widely available in good times and bad."** He added that the banks are among the most highly regulated financial institutions in the country, a point that Beck also stressed.

The ICBA also supports a \$5,000 first-time homebuyer tax credit as an economic stimulus and urged Congress to avoid curing current economic woes by tightening credit so much that many average loan applicants could not qualify.

According to Gaines, home delinquencies, defaults and foreclosures from the third quarter of 2006 to the same period in 2007 were up in the 10 worst-hit states from 79 percent in Michigan to 1,128 percent in Massachusetts, but the Texas rate rose only 7.6 percent. Texas foreclosures dropped from 12,694 in August 2007 to 8,087 in November.

Dr. Gary Maler, director of the Real Estate Center, said, **"The small banks didn't get into sub-prime and adjustable-rate mortgages because they base whether they'll make a loan on the customer's ability to repay, not on whether they can sell the loan to a third party where they turn out to be worthless."** A lot of stupid things were done out there."

Much of Texas' insulation, although edgy loans here were not free of the stupidity, is **due to steady economic growth in the whole state, with only a few troubled regions, and Beck points out that the Georgetown-Temple-Killeen corridor, besides being one of the fastest-growing, is rapidly diversifying. The medical community is just an example,** with Scott & White and Metroplex in Bell County and Seton and St. David's to the south all expanding, and when the four-year A&M campus is established here, opportunities will grow exponentially.

"But person-to-person banking will remain the foundation for personal transactions. 'You can bank on it' means us, not Merrill Lynch, not Bear Stearns. **Stability depends on the banker and customer knowing each other,"** Beck said.

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