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In flat market, some banks ramp up

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Stable, well-capitalized banks look to grow market share

While bank lending remained flat in the first quarter, a number of small and large banks broke that pattern, largely staying clear of real estate lending.

At a time when most Twin Cities metro banks were still struggling with weak loans in their portfolios, 19 percent of Twin Cities banks expanded their portfolios over the first quarter of 2010, some by big margins, according to a Finance & Commerce analysis of U.S. Federal Deposit Insurance Corp. records.

Three of the region's fastest growing lenders were relatively new banks: Oakdale-based Platinum Bank, First American Bank of Hudson, Wis., and Edina-based Minnesota Bank and Trust.

All three opened in 2008 or later, targeting the region's small- to mid-size businesses rather than higher-return real estate development loans. They hired experienced commercial lenders and have built their business around meeting an array of customers' needs – from loans to employee benefits to private banking services.

That strategy has been paying off in 2010 and 2011.

Platinum's loan portfolio grew to \$84 million at the end of the first quarter, 15 percent above a year ago. First American grew 21 percent, to \$61 million, and Minnesota Bank & Trust grew 46 percent, to \$44 million.

One reason for the growth: Many competitors were not lending. "A majority of Twin Cities community banks have too many bad loans," said Platinum Chief Executive Officer David Rom. "They're not really in business right now to make new loans."

The three started making loans as the frothy lending environment was ending, and that meant they were not saddled with lots of risky loans. That kept their capital intact, enabling them to lend freely now, said Katy Kelly, chief executive officer of Minnesota Bank & Trust.

"We've been able to roll up our sleeves and do some banking at a time when other banks are still pretty troubled with balance sheet issues," she said.

The three also shared a model of putting together teams of experienced bankers. All three point to lenders who have been in the business for 20 years or more.

“We’re talking to companies that weren’t happy with their banking relationships, said Gene Cross, commercial banking manager at Minnesota Bank & Trust. “When they meet our team and see how much experience they have, they get pretty comfortable.”

That model began paying off for First American in 2010, said John Malmberg, the bank’s chairman and chief executive officer.

“Borrowers were hunkered down for quite a while” after the recession began, Malmberg said. “They weren’t spending, and they weren’t moving their business” when the economy was at its depths. “But in the last year they’re starting to feel healthier, and they want to find a bank that they’re comfortable with,” he said.

At the other end of the size spectrum from those three startups, U.S. Bank expanded its national loan portfolio by 3.6 percent over 2010, with some of that gain coming through acquisition. Minnesota market president Elliot Jaffee said that regional businesses are still reluctant to borrow and that use of lines of credit remains at historical lows.

But Jaffee said the bank’s local customer roster has grown in the last year, putting it in a position to grow rapidly when the recovery starts. “We’re bringing in new clients, and we’re not losing clients. We believe we’re gaining market share” in the Twin Cities.

Much of the shrinkage in the region’s loan portfolios came at banks where real estate losses ate up capital levels. First Commercial Bank in Bloomington and American Bank in St. Paul both were among the big losers on loan volume, and executives at both those banks acknowledged in recent interviews that they were shrinking their portfolios because losses had consumed much of their capital.

Stillwater-based Central Bank also saw its portfolio shrink 12 percent, with most of that decline related to the bank’s effort to charge off and clean out distressed loans it acquired in four acquisitions in the last two years.

“We just wrote off \$15 million of loans in the first quarter, and 75 or 80 percent of those were loans we had acquired,” said Kurt Weise, chairman of Central Bank.

Central has one of the highest capital ratios in the region, meaning it is positioned to start expanding that portfolio whenever the market rebounds. But Weise said that’s not likely to happen soon. “From our standpoint,” he said, “the small business market we serve is probably 18 months away from borrowing and investing again.”

NOTE TO READERS

The U.S. Federal Deposit Insurance Corp. releases quarterly financial reports on every bank in the country. Individual bank reports become available on the FDIC’s website weeks before the agency releases the data in a searchable format. Finance & Commerce reporter Chris Newmarker took individual first-quarter reports for most banks in the 13-county metro area and looked up the dollar amount of each bank’s total loans

and leases as of March 31, 2011. He then looked up each bank's March 31, 2010, total dollar amount, and calculated the percent increase or decrease for each bank.

Top banks for loan growth

Out of 105 Twin Cities-based banks, only 20 increased total loans on the books during the 12 months ended March 31, 2011. Here are the top 10.

Name, location – % increase in \$ loan volume – Total assets

Minnesota Bank & Trust, Edina – 60.8% – \$62.3M

Hiawatha National Bank, Hager City, Wis. – 46.3% – \$77.6M

First American Bank, N.A., Hudson, Wis. – 21.8% – \$76.2M

Platinum Bank, Oakdale – 15.1% – \$108.1M

Stonebridge Bank, Minneapolis – 8.1% – \$82.7M

BankCherokee, St. Paul – 7.3% – \$235.1M

State Bank of Hamburg, Hamburg – 5.7% – \$19.3M

Castle Rock Bank, Castle Rock – 5.6% – \$142.9M

Venture Bank, Bloomington – 5.5% – \$263.5M

Unity Bank, Rush City – 5.3% – \$185.9M

Source: Federal Deposit Insurance Corp.

Shrinking portfolios

Of the five Twin Cities banks that saw their loan portfolios shrink the most between March 2010 and March 2011, three had total risk-based capital ratios below the 10 percent that regulators typically consider well-capitalized.

Name, location – Total loans decline, percentage – Total risk-based capital ratio – Assets

Rosemount National Bank, Rosemount * – (45.5%) – 3.6% – \$21.5M

First Resource Bank, Savage – (34.0%) – 88.3%** – \$21.3M

First Commercial Bank, Bloomington – (27.5%) – 6.2% – \$256.4M

American Bank of St. Paul, St. Paul – (26.8%) – 9.2% – \$469.4M

The Business Bank, Minnetonka – (24.7%) – 15.9% – \$121.1M

**Federal regulators closed Rosemount National Bank on April 15, selling its assets to Stillwater-based Central Bank.*

***John Falkner III, who owns large cucumber-growing operations in Michigan and Florida, bought First Resource in late 2010, pumping capital into the bank.*

Source: U.S. Federal Deposit Insurance Corp. data, with 104 out of 105 institutions reporting.

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