

SAUGERTIES TIMES

The Value of the Local

Seven banks collaborate on loan fund for small businesses

By Geddy Sveikauskas

At a press conference in Kingston Wednesday, November 18, a consortium of seven Ulster County banks announced a new tool for providing greater access to capital to small businesses in Ulster County unable to obtain conventional financing.

In a ringing declaration of the value of the local, the group of seven banks announced they will each contribute seed money for a million-dollar loan fund to be administered by the state business development corporation (NYSBDC). The funds will provide access to loans ranging from \$25,000 to \$150,000. Four local savings banks (Rondout, Sawyer, Ulster and Walden), two regional banks (Catskill Hudson and Provident) and a single national bank (TD) will kick in \$150,000 each to start the loan fund. According to a press release, NYSBDC will process the loan applications, administer the program, and participate as a lender.

Ulster County Development Corp. (UCDC) President Lance Matteson said his agency and March Gallagher, County Executive Mike Hein's in-house economic development expert, had helped shape the consortium initiative. UCDC, he said, would be "the official point of contact" and "a filtering device" for applications passed on to the state. Matteson also credited UCDC and Gallagher with developing the idea – risk-sharing among banks is no new concept, but doing so with such a program on so local a level is unusual – based on a recommendation from an advisory economic development committee formed by Hein.

Underutilization has been an occasional problem for local revolving loan funds. Matteson said demand at the county level has in fact been robust. He said that UCDC may now need to replenish the capital in its countywide revolving loan fund. Local enterprises that save and create jobs will get the help. "With a little stretching," said Matteson, "we can find bankable projects that need the money and can't get it otherwise."

A DROP DURING A DROUGHT?

Though this innovative effort on the part of the banks to provide additional access to capital for small business is unusual, too much ought not to be expected of it. How much can sums of such magnitude stimulate the local economy? The maximum sum at risk to the banks represents a little bit more than one-tenth of 1 percent of the \$954 million in Ulster County deposits of the participating banks. With many businesses struggling to deal with the consequences of diminished revenues of 10, 20 or 30 percent, how much stimulus can the possibility of these loans provide?

But even that's not the heart of the present problem. At least these banks are trying. Are the national banks exerting the same kinds of efforts?

At a banking conference in New York November 10, FDIC chairperson Sheila Bair worried that the national economy might decline further without increased access to credit. She said the biggest banks weren't doing much lending. Instead, they were taking advantage of near-zero interest rates to borrow dollars cheaply and buy higher-yielding assets like stocks or commodities. "It used to be you take deposits and you lend out money. We'd like to see more of that," she said.

Steering lending toward the smallest – and traditionally perhaps least bankable – applicants, the data shows, might stimulate maximum job creation. "One of the little-known facts about the economy," Robert Litan of the Brookings Institution has recently written, "is that, not only are most new jobs created by entrepreneurs, [but] in fact between 1980 and 2005 all the net new jobs in the U.S. economy were created by firms less than five years old."

DEPOSTS RISING

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The past year has been a tough one for the local economy. Facing an uncertain stock market and declining real-estate values, Ulster County residents, like most Americans, have been seeking financial safety. For many, that has meant saving money and putting it in the bank, instead of investing in other classes of assets.

That's been good for bank deposits. The statistics show that funds in Ulster County depository institutions have increased in one year by about a quarter of a billion dollars. On a per-capita basis, that's meant more than a thousand dollars per person in deposits.

The banks increased their deposits from \$2,177 billion in mid-2008 to \$2,387 billion in mid-2009. Total savings and deposits in credit unions – another important player class in the local financial world – increased by about the same proportion during the same period.

This upward trend in Ulster County banking deposits is new. From 2004 through 2008, the data shows, deposits in local banking institutions increased less than 1 percent per year despite an increase in the number of bank offices in the county from 55 to 66.

The credit unions have also been increasing their number of branch offices. Locally, deposits in credit unions as a class were increasing annually in the high single digits, expanding their share of the depository market.

All banks have not shared equally in the recent surge of deposits in Ulster County. There's been movement toward the local. While some of the county's savings banks in particular have done extraordinarily well in attracting new deposits and gaining market share, some of the too-big-to-fail national banks have experienced much less change.

Why do local banks do better than national banks in attracting deposits in times of stress? With virtually all deposits at depository institutions federally guaranteed, it is unlikely the local banks are perceived as safer.

Marge Rovereto, president of Ulster Savings Bank, theorized that the relationships were involved. Familiarity bred comfort. "In this environment," she said, "depositors want to be with people they know."

Resentment against the inflexibility of some of the bigger banks could also be a factor. Some customers perceive them as rule-bound and impersonal.

Finally, the widespread anger about the degree of financial concentration of the banking industry is mostly directed against its largest players. A press release last Friday from U.S. Rep. Maurice Hinchey presented data that highlighted these issues.

"Today, just four huge financial institutions (Bank of America, JP Morgan Chase, and Wells Fargo) hold half the mortgages in America, issue nearly two-thirds of credit cards, and control about 40 percent of all bank deposits in the U.S.," wrote Hinchey. "In addition, the face value of over-the-counter derivatives at commercial banks has grown to \$290 trillion, 95 percent of which are held at just five financial institutions in the entire country (Bank of America, Citigroup, Goldman Sachs, JP Morgan Chase, and Morgan Stanley)."

SMALL-BRANCH STRATEGY

The contrast in scale was evident at last Friday's consortium press conference. Hein noted that no fewer than five bank presidents were personally attending the Kingston session.

Not including credit unions, only seven banks recorded more than \$100 million each in Ulster County deposits as of June 20, 2009. They are, by deposit size: Ulster Savings (\$456.6 million in deposits), Key Bank (\$323.4 million), M&T (\$312.3 million), Bank of America (\$257.3 million), RBS/Citizens (\$211.6), Roundout Savings (\$185.0) and Sawyer Savings (\$122.9).

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With a startling increase of more than \$60 million in Ulster County deposits in a single year, from \$396 million to \$456 million, Ulster Savings Bank was the biggest winner in the race for deposits. Including its single branch office in Greene County and its four offices in Dutchess County, Ulster Savings' total deposits increased from \$510 million to \$589 million.

The result appeared to have been a vindication of the venerable Kingston-based savings bank's recent strategy of establishing eight new branches from scratch in smaller communities like Saugerties (one in Twin Plaza and the other on Main Street), Stone Ridge, Phoenicia, Windham, Gardiner, Red Hook and Wappingers Falls.

Because it involved the bank absorbing the costs of operating expenses while deposits were building, the strategy was on risk-free. The bet paid off, however. Deposits in Ulster Savings' eight newer branches increased by \$35 million in the year ending June 30, 2009 – from \$96 million to \$131 million.

Rovereto touted the success of the small branch offices in attracting deposits. She said that such offices could break even with a deposit base of only \$7.5 million. Conveniently located in the villages and hamlets outside larger communities with established banks, they offered both convenience and familiarity.

Some other local savings banks were big gamers, too. Rondout Savings Bank increased its deposits in the same year by \$17.3 million and Sawyer Savings Bank by \$13.1 million. Rhinebeck Savings' single Ulster County branch in Kingston added \$1.3 million in deposits, and Walden Savings' Gardiner office increased its deposits by \$1.8 million.

Among the national banks, Bank of America paced the Ulster County results with a gain in deposits of \$27.6 million. Most of the increase was concentrated in three branches: Washington Avenue in Kingston (up \$7 million), Woodstock (\$8.5 million), and Shokan (\$3.7 million).

Among the better performing of the national banks in terms of deposits were Key Bank, whose Ulster County deposits were up \$12.8 million, Wachovia's up \$5.3 million, HSBC's and J.P. Morgan Chase each up \$4.3 million – the latter's increase in deposits coming despite the closing of one of its two uptown Kingston branches. Increased deposits in governmental and non-profit accounts may account for part of this growth.

The regional banks offered a mixed picture. Fast-growing Catskill Hudson Banks' single Ulster County branch office more than doubled its deposits from \$15.1 million to \$32 million. Despite recording a \$4.1 million increase in deposits, Wilber National Bank decided this year to close down its small Kingston branch, leaving Boiceville its only Ulster County toehold.

Credit unions record their deposits not by branch but by service area. The four largest credit unions in Ulster County are the huge Hudson Valley Credit Union with \$2.389 billion in deposits in Dutchess, Orange and Ulster Counties as of the end of this June; Mid-Hudson Valley FCU with \$594 million in the same region; Middletown-based Hudson Heritage FCU with \$170 million in the same territory; and Kingston-based Ulster FCU with \$70-million in deposits just in Ulster County.

In 2008-09, the local credit unions matched but did not surpass their annual deposit growth by percentage points of the past few years. With new branch offices, they will in the next several years continue to expand their reach in the parts of the three-county area they do not presently serve.

EVOLVING LOCAL RELATIONSHIPS

As the winter holiday season approaches, television viewers will get their annual opportunity to see Frank Capra's 1946 classic "It's a Wonderful Life," with Jimmy Stewart starring in his memorable portrayal of George Bailey, the small-town banker with a heart. As sort of an antidote, they'll also get to see Oliver Stone's 1987 "Wall Street," starring Michael Douglas as greed-is-good anti-hero Gordon Gekko. It's sort of been assumed in our recent intellectual culture that there aren't going to be any more George Baileys and that we'll be lucky to limit the number of Gordon Gekko's in our future.

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Now we're not so sure. With too-big-to-fail getting such a thorough political pounding, the resurrection of local institutions seems no longer a lost cause. In Ulster County, where atavistic institutions have not only persisted but are evolving, adapting themselves to new forms. An economy based on local relationships is beginning to be regarded with emotions other than fond nostalgia. Perhaps – just perhaps – 2009 will become known as the year of the high-water mark of the too-big-to-fail banks.

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