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Banks adjust as commercial lending demands change

Fewer loans are being made to home builders, condo developers

BY JIM FREER

Businesses with solid balance sheets and bankers who know how to make operating loans to them are in demand at banks in South Florida.

Banks are expanding their competition for commercial and industrial loans as they adjust to the downturn in residential construction and mortgage lending.

Many banks last year began making fewer loans to condominium developers, condo converters and home builders amid concerns about overbuilding. Meanwhile, federal regulators became concerned about rising delinquencies and losses, so they issued new guidelines for tighter underwriting and monitoring of those loans.

"The demand is not as brisk for construction loans, but we are seeing that many companies that are not directly related to the housing market are still growing," said George Psomopoulos, senior VP for corporate banking at City National Bank of Florida.

FEWER OPPORTUNITIES FOR CERTAIN LOANS

Miami-based City National is among locally based banks that made condo and homebuilder loans without significant losses. They are finding fewer opportunities for those loans -- even if they want to make them.

So, City National is among banks that are adding commercial lenders and calling and knocking on doors to find more borrowers.

That is leading to more loan offers, sometimes at lower rates, for South Florida businesses that are profitable and have a combination of good cash flow and credit histories along with low debt levels. Many banks link rates on operating loans to their prime rate, which was 7.75 percent in mid-October.

This year, many South Florida businesses can obtain commercial loans at starting rates ranging from 1 percent under prime to 1 percent above prime, said William Heffernan, president and CEO of Miami-based TotalBank.

Banks change the rates on those loans, effective with the next month's payment, after they raise or lower the prime rate. The prime rate usually changes when the Federal Reserve moves its target for the federal funds rate, which is 3 percent below the prime rate.

Experienced commercial lenders are also benefiting from the lending shift, said Lisa Gaeta, president of executive search firm Finance Placements & Consulting in Fort Lauderdale.

Salaries vary for lenders who change banks, based on their experience, how many custom-

ers they can bring and the size of the bank hiring them, Gaeta said. Raises can be expected, she said, with some bankers moving into six-figure salaries.

City National has hired several lenders from other banks and has re-trained some real estate lenders for commercial lending.

City National, with \$2.7 billion in assets last June 30, is seventh on the *Business Journal's* list of largest community banks, all of which are based in South Florida.

SHIFTING RESOURCES

Many large banks based outside Florida also are shifting some South Florida resources from construction lending to commercial lending. Those diverse banks have loans in other markets and other business lines.

Thus, the change is more important for so-called community banks, whose business is almost entirely South Florida lending.

For those banks, having lenders who can analyze borrowers' balance sheets and cash flow is vital.

"In commercial real estate, you look at an asset and the cash flow of that asset as the primary source of repayment," Psomopoulos said. "In C&I lending, you need to understand how the operating entity works, and have a quantitative and qualitative knowledge of what the business needs."

A background in accounting is an important trait for anyone who shifts to commercial lending from another area of banking, he said.

"You have to be seen as a trusted business adviser, and as someone who can identify

ways to save time and money for the customer," Psomopoulos said.

When banks cannot find bankers from other banks who meet their needs, they are looking to re-train some of their own staff members, Gaeta said.

"They are looking for bankers who have worked in the credit areas and understand asset quality and business development," she said.

EXPANDING COMMERCIAL LENDING STAFF

City National has commercial lenders at branches in each South Florida county and at loan offices in Stuart and Orlando.

The bank does that business through two groups. Its commercial group covers businesses with \$20 million or more in annual sales. Its business banking groups works with companies below that sales level.

City National began expanding its commercial lending staff late last year. The volume of those loans on its books was \$258 million on June 30, compared with \$254 million a year earlier.

City National's portfolio of construction and land development loans fell from \$632 million on June 30, 2006 to \$523 million a year later. That indicates that many residential projects were completed, and the bank has been making fewer of those loans.

On the books of banks based in Florida, construction and development loans grew 4 percent, to \$24.5 billion on June 30, from \$23.5 billion on June 30, 2006, according to the Federal Deposit Insurance Corp. Commercial and industrial loans at Florida-based banks grew a robust 17 percent, to \$11 billion from \$9.4 billion during the 12 months.

That category includes loans to businesses to purchase real estate, including buildings for their headquarters.

Psomopoulos, Heffernan and David Seleski, president and CEO of Stonegate Bank in Fort Lauderdale, each said his bank is expanding those so-called "owner-occupied" loans.

Those loans are based on analyzing the borrower's cash flow and other operations to pay the loan on the property.

"You cannot have real estate lenders doing C&I unless you re-train them," Seleski said.

Commercial loans are not a single transaction and are "built around a relationship," he said.

"With the typical commercial customer, the business changes year to year," Seleski said. "You need to know where the credit risk is, and you need to be in tune with their customers and suppliers."



FILE PHOTO

Lisa Gaeta says experienced commercial lenders are benefitting from the shift.