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Wednesday, Oct. 01, 2008

Small, locally owned banks say customers are flowing in Customers reportedly bailing from big banks

By Eve Hightower
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Chris Courtney can see the effects of big bank failures from his office overlooking the busiest intersection in Oakdale.

Residents literally have walked out of Washington Mutual with cashier's checks in hand, crossed the street and opened accounts at Oak Valley Community Bank.

"We've had a net inflow of deposits," said Courtney, president of Oak Valley Community Bank.



Modesto Bee - Oak Valley Community Bank Wednesday 05/23/07 in Oakdale, CA. Marty Bicek/The Bee

Courtney and other officials at community banks in the Northern San Joaquin Valley have seen money flow into their vaults over the past few days, but, like Courtney, they prefer not to speculate why.

"We're just starting to track it," said Thomas Smith of Merced-based County Bank.

"I wouldn't be surprised if they are seeing more deposits from customers leaving big banks like Washington Mutual," said Jeff Michael, the director of the University of the Pacific's Business Forecasting Center.

Community banks credit their conservative approach to lending and their close relationships with customers for largely avoiding the troubles that thrust Washington Mutual and Wachovia into the headlines.

"When you work for a community bank, customers see you walking down the street. When they look into your eyes and ask if their

money is safe, you want to be able to say 'yes.' That's the difference between a Wall Street banker and Main Street banker," Courtney said.

Community banks' nature means they don't make the big bucks in good economic times, but they survive the bad times.

"That's why we've been around 141 years. This bank has been through the Great Depression. We're handling this quite well," said Tom Shaffer, executive vice president of Bank of Stockton.

That's not to say all community banks are sitting pretty. It depends on their management, Shaffer stressed. "You can't make a unilateral statement about community banks."

Merced-based County Bank, for example, didn't play in the subprime muck, but it did offer commercial construction loans to local developers. Smith blames some of those loans for the losses posted by County Bank.

For a variety of reasons, banks have had a hard time declaring construction loans delinquent. "It's not a pretty picture" for banks with bad construction loans on the books, according to a statement released Tuesday by John Burns Real Estate Consulting.

Even community banks that regard themselves as strong concede that they are feeling the fallout of delinquent loans. Mother Lode Bank in Sonora saw its credit rating drop after absorbing two bad loans.

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"We're well-capitalized. Our liquidity is good. There's an inflow of funds. But we're only 4 years old. Our portfolio isn't as established as some other banks," said Chuck Milazzo of Mother Lode Bank.

So what do community banks do in hard times?

"Stay close to our customers. Maintain consumer confidence," said Jeff Burda, president of Modesto Commerce Bank, which is owned by Bank of Stockton.

While they welcome the influx of new customers, community bank leaders feel a little uneasy about why these people are coming to them.

"The biggest concern to me is that people are panicking," Shaffer said. "Now is not the time to panic," Shaffer said.

Bee staff writer Eve Hightower can be reached at ehightower@modbee.com or 578-2382.

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