News

Small business lending falls, total lending increases

By Bryant Ruiz Switzky

Local small businesses have seen their fair share of challenges over the past year. Among the greatest: availability of financing.

That challenge is reflected in recently released data from the Federal Deposit Insurance Corp. showing that small business lending has declined over the past year at most of the area's 41 locally based banks – even while total lending has increased.

The value of banks' portfolios of commercial real estate and commercial loans made for less than $1 million declined $208.5 million over the past year, or 6.2 percent. That excludes Capital One Bank, which would skew the data due to its size. (It decreased its small business loans $4.1 billion, not including credit card loans. Most of its operations are outside the Washington area.)

Meanwhile the value of total loans held on local banks' books was up 1.8 percent, or $361.7 million from a year ago. These figures reflect the change in size of the banks' loan portfolios, not the value of loans made during the year. Banks must lend just to stay even, given that loans are maturing all the time.

Small businesses may be getting less credit than other borrowers because they often have a thinner cushion of capital to absorb the challenges of the down economy, which can make them less creditworthy than larger businesses, said Mike Fitzgerald, CEO of District-based Bank of Georgetown.

"They just don't have a lot of blood to give," he said.

However, Bank of Georgetown hasn't had trouble finding small businesses customers. It grew its small business loan portfolio by $19.1 million over the past year and grew its total loans by $62.3 million.

"We're fortunate to have maintained strong credit quality, which enables us to spend more time looking outside the bank for growth opportunities than inside the bank working out problems," he said.

Annandale-based John Marshall Bank also posted strong gains, increasing small business loans by $18.4 million and total loans by $94.8 million.

"We take an aggressive stance toward the small business market. That's the focus of this bank," said CEO John Maxwell, adding that he hopes to hire four new small business lenders soon.

Like many of the area's community banks, John Marshall has grown by stealing customers from large banks and transferring their existing loans, rather than from businesses that are expanding.

"There are not a lot of new projects coming out of the ground," he said, noting that government contracting was an exception to the stagnation.

While demand and creditworthiness may explain the decline in small business lending, there's also another theory: bank regulators have discouraged small business lending, which they perceive as being high-risk.

"Regulators have just put the kibosh on making these types of loans," said Gerald Hanweck, professor of finance at George Mason University who recently wrote a paper on the subject. "They are so frightened about more banks failing that they've taken on a very restrictive policy."

In addition to Bank of Georgetown and John Marshall Bank, McLean-based Sonabank, Laurel-based Revere Bank and Fairfax-based First Virginia Community Bank made the top five local small business lenders.

The banks showing the biggest declines in small business lending were McLean-based Capital One Bank, Arlington-based Virginia Commerce Bank, Olney-based Sandy Spring Bank, Fairfax-based United Bank and District-based National Capital Bank of Washington. Some of the gains or declines could be due to loans being reclassified into or out of the small business category.

The banks posting the biggest overall gains in total loans were Bethesda-based EagleBank, McLean-based Cardinal Bank, Sonabank, Alexandria-based Burke & Herbert Bank & Trust Co. and Fairfax-based Virginia Heritage Bank.

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Mike Fitzgerald, CEO
Bank of Georgetown

Total loans up

Total lending

Overall lending at the locally based banks has been relatively strong over the past year, with loans growing $361.8 million from a year ago. That doesn't include Capital One, which posted a $9.58 billion drop in the value of loans held on its books from a year ago (excluding credit card loans). The below banks posted the biggest gains and the biggest declines in the value of their loan portfolios.

	Bank	Loans change
▲	EagleBank	$205.2M
▲	Cardinal Bank	$168.1M
▲	Sonabank	$137.2M
▲	Burke & Herbert Bank	$136.4M
▲	Virginia Heritage Bank	$96.1M
▲	John Marshall Bank	$94.8M
▲	Bank of Georgetown	$62.3M
▲	Revere Bank	$52.7M
▲	First Virginia Community Bank	$46.7M
▲	WashingtonFirst Bank	$40.2M
▼	Capital One Bank	-$9,582.3M
▼	United Bank	-$231.1M
▼	Acacia Federal Savings Bank	-$230.0M
▼	Sandy Spring Bank	-$166.7M
▼	Access National Bank	-$78.4M
▼	Adams National Bank	-$57.2M
▼	Millennium Bank	-$44.6M
▼	Independence FSB	-$34.7M
▼	Colombo Bank	-$17.6M
▼	HarVest Bank of Maryland	-$13.8M

Small business loans down

While total lending has increased, the value of small business loans on local banks' books has declined $208.5 million over the past year, excluding Capital One Bank, which posted a $4.1 billion decline (excluding credit card loans). These figures represent the change over the past year in value of portfolios of commercial real estate and commercial loans made for less than $1 million.

	Bank	Portfolio sum
▲	Sonabank	$19.7M
▲	Bank of Georgetown	$19.1M
▲	John Marshall Bank	$18.4M
▲	Revere Bank	$16.8M
▲	First Virginia Community Bank	$14.4M
▲	Virginia Heritage Bank	$8.5M
▲	American Bank	$7.5M
▲	Industrial Bank	$6.0M
▲	Old Line Bank	$4.2M
▲	HarVest Bank of Maryland	$3.8M9
▼	Capital One Bank	-$4,136.4M
▼	Virginia Commerce Bank	-$159.3M
▼	Sandy Spring Bank	-$52.7M
▼	United Bank	-$34.8M
▼	National Capital Bank of Wash.	-$29.2M
▼	Adams National Bank	-$17.4M
▼	Alliance Bank Corp.	-$11.7M
▼	Millennium Bank	-$10.6M
▼	Burke & Herbert Bank	-$8.8M
▼	EagleBank	-$8.1M

The bottom line

These were the most and the least profitable local banks in the second quarter, relative to their size.

	Bank	Net income	Return on assets (annualized)
▲	John Marshall Bank	$2,857,000	4.07
▲	Chain Bridge Bank	$621,000	1.29
▲	National Capital Bank of Wash.	$892,000	1.21
▲	Burke & Herbert Bank	$136,449	1.18
▲	Cardinal Bank	$5,650,000	1.13
▼	Millennium Bank	-$2,436,000	-4.33
▼	Washington Savings Bank	-$2,336,000	-2.22
▼	HarVest Bank of Maryland	-$867,000	-1.64
▼	Colombo Bank	-$392,000	-0.97
▼	Independence FSB	-$92,000	-0.29

Source: Federal Deposit Insurance Corp.

1st Commonwealth, HarVest Bank hit with enforcement actions

By Bryant Ruiz Switzky

Regulators have slapped 1st Commonwealth Bank of Virginia and HarVest Bank of Maryland with enforcement actions.

The 1st Commonwealth action, called a supervisory agreement, was issued by the Office of Thrift Supervision in August and made public in early September. It requires the Arlington-based bank, founded in February 2009, to adhere to its original business plan and give quarterly reports to regulators explaining if, how and why the company varied from its business plan.

The concerns center on the bank's residential mortgage business, which has been much more robust than what was called for in the plan the bank created back in 2007 when it was organizing, said CEO Ernie Tressler.

"Things have changed a lot since 2007. We grew quicker, primarily because of a good mortgage market," he said.

The bank originated $111.6 million in residential mortgage loans during the first eight months of the year and has to cut its originations by more than 60 percent. As such, it laid off 18 of its 23 mortgage loan officers in recent weeks, Tressler said.

1st Commonwealth has $66.2 million in assets, has no troubled loans, is well capitalized and lost $236,000 in the second quarter. It typically takes new banks two to three years to reach profitability.

Hollerbach

The Federal Deposit Insurance Corp. hit Gaithersburg-based HarVest Bank of Maryland with a consent order, which was dated July 17 but made public in late August. The order requires the bank to come up with a plan for boosting its capital to 8 percent for its leverage ratio and 12 percent for its total risk-based ratio. As of June 30, those ratios were at 5.25 percent and 9.31 percent, respectively.

The bank was ordered to take a series of steps to reduce its exposure to troubled loans, review and update its lending policy and loan review program, and develop a plan for reducing its concentration in commercial real estate loans and nontraditional mortgage loans.

HarVest CEO Jack Hollerbach declined to comment. He told the Gazette in a Sept. 3 article that the bank had already completed the plans required by the order.

HarVest has $207 million in assets and lost $1.4 million during the first two quarters.

Eight out of the area's 41 local banks are now under enforcement actions, mostly relating to the economic downturn that started about three years ago. It typically takes institutions at least two years to get out from under regulatory orders.

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