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## Commercial loans' health key to banking recovery here

BY MARILYN BOWDEN

Full recovery of the banking industry in South Florida depends on the extent of losses from commercial real estate loans now coming due and on how much capital banks are able to come up with, experts say.

While the fallout from bad residential mortgages seems to have crested, "the other shoe — commercial mortgages — is about to drop," said Jeff Weiner, CEO of MDW Insurance Group, which specializes in providing insurance to the financial services industry.

"Commercial real estate loans usually reflect adversity much later than other types of loans," said Emmanuel Roussakis, professor of finance in Florida International University's College of Business Administration and director of its downtown MBA program. "We are beginning to see some non-performing real estate loans showing up."

Many local banks have 50%-60% of their loan portfolios in commercial real estate, he said; in some cases, it's as high as 70%-75%.

"What part will become non-performing is something that will become clearer in the next few months," Dr. Roussakis said. "Until the full extent of commercial real estate losses is known, banks will not be able to ease up on credit terms and play a more active role in the recovery process."

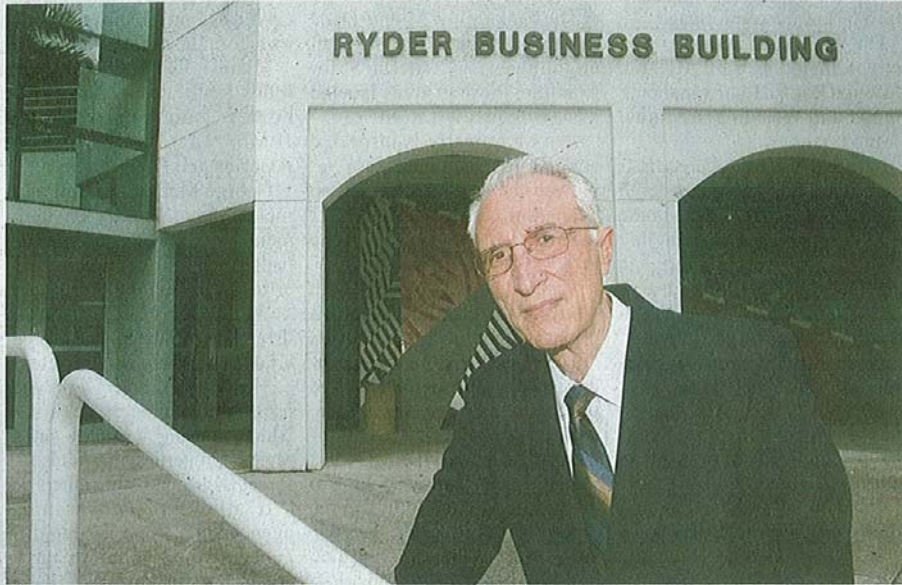


Photo by Marlene Quaroni

Emmanuel Roussakis says the next few months will be telling in what loans become non-performing.

The magnitude of losses would dictate the availability of loanable funds, he said. "For example, if losses were to exceed available reserves, they would have to divert earnings to absorb such losses, which, in turn, would undermine the availability of funds and stiffen the credit terms and conditions."

As a result, he said, banks will be hurting for the next few months at least.

"Texas, California and Florida are the major originators of mortgages," Dr. Roussakis said. "Financial re-

sults for the third and fourth quarters will be indicative of the scenario that will play out locally, and hence of the resumption of the traditional role

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**Emmanuel Roussakis**

of banks in the extension of credit."

One huge problem, Mr. Weiner said, is that many banks don't have enough capital.

"Capital is king," he said. "It's not as bad as the savings & loan crisis of the late 1980s, but they're still a couple of years from working out the bad loans."

"There are banks under cease-and-desist orders right now. If they have the capital and wherewithal, they are going to make it, but if not it's going to be really tough, because regulators are requiring

them to come up with Tier 1 capital." Tier 1 capital is core capital, such as equity capital and reserves.

"What it comes down to," Mr. Weiner said, "is whether the owner can raise the money."

However, based on hiring and compensation patterns, not all banks are suffering, said Dennis Nason, founder & CEO of Nason & Nason Search Consultants, which focuses on the financial services industry.

"It's not a uniform market by any means," he said. "But there is a difference between traditional banks and investment banks such as Lehman Bros. and Goldman Sachs or quasi-banks such as hedge funds, though we tend to throw them together. On the whole, traditional banks are doing well."

Some international banks are laying off or leaving the market, Mr. Nason said, "because the overriding costs of compliance and regulations make it unprofitable. But on the international side we are seeing selective hiring on all fronts, and really good producers are very much in demand."

On the domestic side, he said, "confidence is returning to the US financial sector. A number of domestic banks are starting to hire again. Salaries have stayed stable, and temps are being hired in much more abundance, which is a good sign."

"I am expecting a good fourth quarter in hiring."