# Good news/bad news: Lending not out, just down in some sectors

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Since the current financial troubles emerged last year, politicians and commentators have proclaimed that the nation is in a credit crisis. In press conferences and interviews, politicians continue to assert that the ongoing economic slowdown is occurring because "banks won't lend."

The phrase provides a quick sound bite and gives the speakers a convenient source of blame for the recession. But there are two problems with the claim: It's blatantly untrue, and the very assertion is prolonging the recession by dissuading consumers and business owners from even considering applying for loans.

While the troubles of Citicorp, Bank of America and other large institutions garner the headlines, the American financial system includes almost 8,500 banks and nearly as many credit unions. These institutions operate more than 115,000 branches nationwide. Walk into any one of them, and you'll find someone happy to speak with you about a loan.

To understand the incongruity of the "banks won't lend" claim, it's helpful to discuss how banks operate in a simplified context. Lending is a bank's fundamental reason for existence. Many think of their bank as a place to deposit a paycheck or open a certificate of deposit. Outside of service charges, the bank can't earn any money on those products. When the bank pays interest on a CD or savings account, it costs the bank money. The bank earns money only when it uses those funds to generate revenue greater than the interest it pays on its deposits, such as by issuing a mortgage or working capital loan. So banks must lend to earn income, and while lending has slowed, to claim it has stopped is implausible.

In reality, the data on lending volumes are mixed. While commercial and credit card lending declined in the first quarter, mortgage and home equity lending increased, and no major institution stopped lending entirely. For example, JP Morgan Chase originated more than $150 billion in loans during the first quarter of 2009. And to the extent that the largest institutions are constricting credit availability, there are numerous community banks -- smaller, local or regional institutions -- with healthy balance sheets and a willingness to absorb that capacity.

Birmingham enjoys a heritage of well-managed banks. The industry was hailed as a critical driver of economic revival after steel and other manufacturing industries waned. During the 1990s, only New York boasted more top 50 U.S. banks than Birmingham. Mergers have reduced the number of large banks headquartered locally, but Regions Bank and BBVA Compass (now owned internationally but maintaining U.S. headquarters in Birmingham) still rank among the nation's largest institutions. Banking remains critical to Birmingham's economy. Despite the bluster of a dying industry, the Birmingham Regional Chamber of Commerce reports three banks among Birmingham's 10 largest corporate employers.

Birmingham's banks have historically outperformed national benchmarks, and the talent pool developed at our largest institutions has yielded thriving community banks such as Red Mountain Bank, Superior Bank and First Commercial Bank. In 2008, each of these organizations increased its loan portfolios. Regions' loan base grew by more than $2 billion, hardly consistent with the assertion that large banks aren't lending. But if lending isn't out, it is down in some sectors. A significant contributing factor is the false claims that banks won't lend.

Applying for credit is stressful, just like applying for a job or to college, and the rejection notice can be equally disheartening. No one likes rejection, and if consumers and business owners perceive their loan request will likely be denied, they'll be discouraged from applying at all. So the banks sit with the capacity and the willingness to lend, but a dearth of prospective customers.

The Treasury Department's recent survey of lending at the largest banks concluded that lending decreases were attributable to low consumer confidence and low demand, factors surely amplified by the proclamations from political leaders that banks are no longer lending. Thus, the assertion that banks won't lend becomes self-fulfilling, prolonging the recession as consumers and business owners are dissuaded from approaching banks for credit.

The broad generalizations about banks' unwillingness to lend are inaccurate, irresponsible and harmful to the community. America's financial institutions stand at the core of their communities, first to sponsor the high school scoreboard or lend volunteers to the United Way. Even in these challenging times, banks remain at the forefront of community leadership and philanthropic roles. A strong banking sector is imperative to the civic health of our communities, and the sweeping disparagement of the industry is unwarranted.

Despite the well-publicized troubles of a few institutions, America's commercial banking system remains strong, and thousands of institutions that never forgot the fundamentals of banking stand ready to provide the capital the nation needs to fuel its economic recovery. Our political leaders need to reinforce that message and champion an industry that has supported our nation for generations.

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