

## Lender Constraints

As borrowers have difficulty, banks' loan losses grow. Those losses deplete bank capital which governs a bank's ability to lend. Banks' prudent standards create higher quality loans and result in banks having fewer loan problems than lenders with weaker standards. Those bank loan standards generally have allowed banks to weather the current economy.

The impact on customers is that those seeking credit may not qualify due to their own deterioration and/or the lenders' cautious standards. If banks were to lower loan standards that would result in more loan repayment problems. Loan standards are the single biggest factor in keeping banks healthy.

## If banking was a lending machine:

Congress/public/media have their foot on the **accelerator** – saying “go faster, lend more money,”

### But...

Bank regulators have their foot on the **brake** – saying “no you don't, we don't want banks taking any risk.”

Each bank has a unique situation. This economic downturn requires experienced field examiners. Many examiners lack this experience and then have a tendency to react strongly with subjective judgments that deter lending.

## Changing Standards in Banking Regulation

Despite borrowers' and lenders' constraints there are loans that banks could make if they were permitted. Banking is a highly regulated business; examiners scrutinize lending practices and individual loans. We know regulators have a job to do: regulate and examine banks to assure their safety and minimize the chance of bank failure.

Consistency in their approach would benefit everyone: banks, regulators, and the public. A lesson from previous cycles is that it takes time for real estate values to come back. Banks that are working with borrowers in an effort to allow time to sell the property, but not at distressed levels, aren't given any flexibility in this environment.

Changing regulatory standards are causing problems. Bank capital is the cushion against loan losses, and it is being used as intended in this era of loan defaults. Regulators aren't maintaining standards as in previous downturns, but are significantly increasing them. Failing to distinguish between banks and nonbanks, public misperception of who and what caused last fall's crises and the safety of real banks – along with Congressional comments against banks (when they actually mean nonbanks) – prompts regulators to raise standards more. That political pressure drives regulators' over-reaction; they “crack down” on banks to minimize the chance of failure “on their watch.”

**Bank lending plays a critical role in our economic recovery. Borrowers and lenders are addressing financial constraints and are working through issues. Bank regulation and examination are essential to a sound banking system. CBA recognizes this essential role but also believes regulators are impairing bank lending and thus the recovery by overly aggressive actions in capital standards, concentration standards, and loan downgrades.**

# Reality of Bank Lending

## Colorado Bankers Association

[www.coloradobankers.org](http://www.coloradobankers.org)  
[www.financialinfo.org](http://www.financialinfo.org)



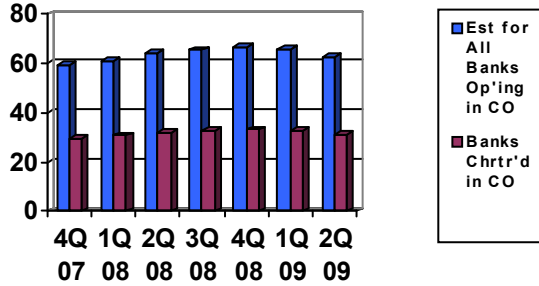
140 E 19th Avenue, Suite 400  
Denver, CO 80203  
303.825.1575

### Credit Availability

The lack of lending (heavily criticized by the public, media, and public officials) reflects low loan demand and is attributable to:

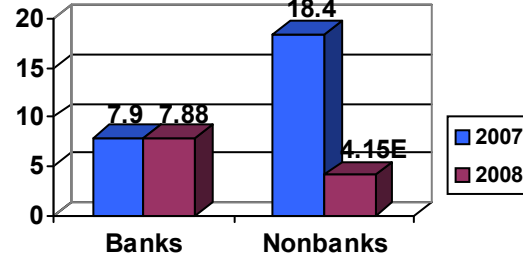
- Borrower creditworthiness issues,
- Lender financial constraints, and
- Regulators' tougher standards, and is exacerbated by
- Greatly diminished role of nonbank lenders recently

**Total Loans by Banks in CO (\$B)**



- Banks in Colorado increased lending 11.7% in 2008
- Colorado loans subsided approximately .8% in the 1st quarter 2009, and 5% in the 2nd quarter 2009. (About 2 of that 5% is from a single bank failure.)

**Lending in U.S. (\$ Trillions)**



- Decades ago banks provided 70% of loans in the U.S.; bank lending has grown over the decades
- The nonbank sector has grown even faster so that in recent years nonbanks provided 70% of U.S. credit and banks provided only 30% - Now the nonbanks have shrunk dramatically

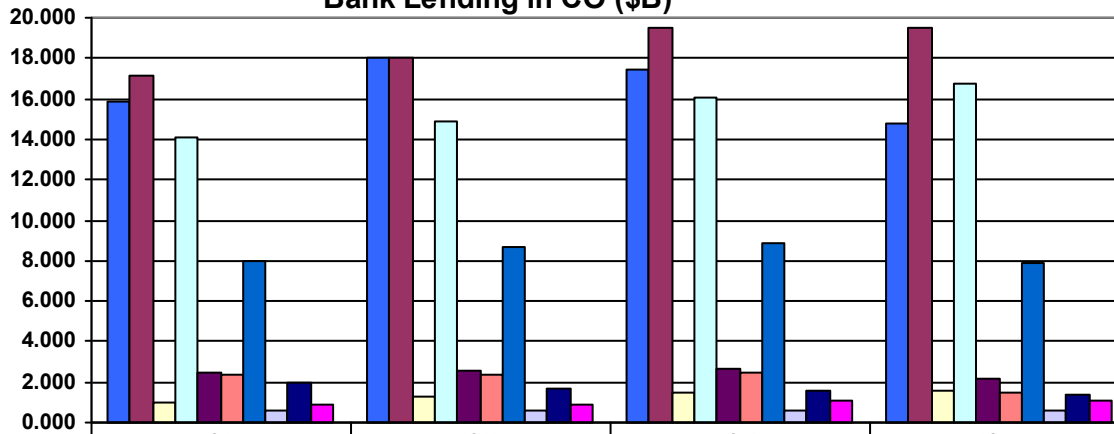
## Changing Regulatory Standards

### CBA has concerns about:

- Significant increases in capital standards (while we're coping with this tough economy)
- Concentration standards ("too many" loans in one area, triggering lending restrictions)
- Loan downgrades (grading the loan as nonperforming [thus prompting capital decreases and lending restrictions] even when the borrower hasn't missed a payment and has the ability to make future payments)

These factors combine to negatively impact borrowers in several ways. The growing capital pressure on banks in this environment often translates into shrinking the bank. That's done by reducing lending. That is compounded by the exit of nonbanks from lending – leaving banks as essentially the only source for many loans. When a bank's focus is on complying with complex regulatory matters it can't keep its first priority on serving customers and the community.

**Bank Lending in CO (\$B)**



## Borrower Creditworthiness

As asset values dropped for many businesses recently they were forced to seek borrowed funds. Often their financial statements deteriorated in the last year meaning many do not qualify for loans now; their assets are worth less and their capacity to repay loans has declined. Most nonbank lenders who previously had lower lending standards than banks have disappeared or have tightened lending standards to look more like traditional prudent bank lending. Borrowers often have decreasing cash flow needed to repay debt.