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Holding Their Own

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New Mexico banks remain in better shape than many of their peers elsewhere in the country, but worsening commercial real estate conditions are weakening some institutions, the state's chief financial regulator says.

"We have had some deterioration on the ratings of some institutions, due to concentrations of commercial real estate loans," said William J. Verant, director of the Financial Institutions Division of the state's Regulation and Licensing Department. Regulators want to see commercial real estate loans under 300 percent of the bank's capital, and about a dozen institutions are over that ceiling, Verant said.

"We have no banks that are failing," he said. "We do have a couple of our banks that are struggling with their earnings. Lending is down. Spreads (between interest charged for loans and interest paid for deposits) are narrower than they used to be. We are seeing problems in the commercial real estate area, but there is no emergency."

Verant said a few New Mexico institutions might be ordered to increase their capital or reduce the commercial real estate loans on their books.

The Federal Deposit Insurance Corp. last week reported more than 300 banks in the United States were on the FDIC problem bank list, up from about 90 in the first quarter of last year. None of those banks is in New Mexico, Verant said.

A problem bank is one in such difficulty its viability is in question. The FDIC does not identify specific banks on the problem list to prevent runs on troubled banks.

The FDIC's quarterly report on New Mexico financial institution performance indicates state commercial banks are in general sound but that profits are suffering. Earning assets increased to \$16.9 billion from \$15.5 billion in the first quarter of last year and total deposits are up to \$14.3 billion from \$13.2 billion last year.

However, net income for the state's 49 commercial banks insured by the FDIC dropped to \$10 million from \$52 million last year. Net interest margin, which measures the spread between a bank's cost of funds and the money it earns from lending, declined from 4.31 last year to 3.83 this year.

More than 12 percent of the commercial banks were unprofitable in the first quarter of this year, compared to 4 percent last year.