COMMERCIAL CONNECTION

Regulators overdo it

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Federal banking regulations are essential to a sound banking system. We learned that painful lesson in the savings and loan crisis in the early 1980s when we first thought deregulation would fix things. We deregulated banking in response to this crisis 30 years ago believing the industry and free market could police itself. But that only made a bad situation worse. So we corrected by re-regulating banks.

The banking regulatory pendulum, however, appears to have swung too far in the opposite direction today to become overly restrictive. It is hurting good borrowers and choking off lending at a time when it is desperately needed to fully recover from this recession and bring real estate values back more quickly.

Bank regulators did not do enough during the years at the top of the real estate cycle when having a pulse appeared to be the main requirement for getting a loan approved. Now, they are too oppressive at the bottom of the real estate cycle and it is stifling our economic recovery.

Don't blame banker

Your local banker wants to help his or her borrowers and community as in the past. But bankers have been forced to take their primary focus off the client and focus instead on maintaining compliance with complex, over-bearing, regulatory matters.

One example that a banker friend of mine told me over lunch recently puts a face on the practice. A good customer of his for many years has a $1 million mortgage on a commercial property that he bought at the top of the real estate market in 2005. The borrower made every payment on time and appears well positioned to make payments long into the future. The banker hopes to continue this loan because the borrower is strong and capable even though the property has decreased in value.

Unfortunately, his bank regulator will not allow it to continue without onerous changes that will hurt the borrower and very possibly push an otherwise good credit risk into a foreclosure situation. The bank regulator has imposed concentration standards (too many loans in one area triggering lending restrictions) and a loan downgrade since the loan amount is higher than today's appraised value of the property.

The regulator now requires the borrower to come up with $300,000 cash to reduce the mortgage principal so the local bank can renew the mortgage at $700,000. The problem is the borrower does not have the extra $300,000 to buy down the mortgage now. This is one example of many where local bankers are being forced by federal bank regulations, put in place after the recent banking crisis, to turn otherwise good financial risks into delinquent borrowers.

These conditions keep real estate values depressed and add unnecessary misery to our foreclosure crisis that, if left alone, would have helped the economy to recover more quickly and organically.

National disconnect

Congress, the media and the public implore banks to lend more reasonably to help home and business owners get through difficult economic times. But the reality is federal bank regulators are forcing banks to do the opposite.

We have a major disconnect between what the government says and what it does with regard to banking regulation. Regulators are impairing bank lending and the recovery by their overly aggressive actions.

Like most local governments today, Lee County has rolled out the red carpet for business. They want to see job growth and help our commercial real estate market rebound by welcoming new businesses to Southwest Florida.

One example of a local government pro-business position is a quote from the city of Cape Coral's website:

"Florida offers a highly competitive cost-of-doing-business and is consistently ranked as one of the top pro-business states in the country for a number of good reasons. Florida is one of only a few right-to-work states in the U.S. and clearly provides a business-friendly environment and many tax incentives for businesses. Our city has no public service tax and Florida has a low corporate income tax rate and no personal income tax. Florida's sales tax is only 6 percent. Our tax incentives for businesses attract many small and large businesses to the Cape Coral region."

Cape Coral is one of the cities that not only "talk a good talk," it backs it up with responsible, consistent actions. I have witnessed first-hand efforts by Cape Coral to truly bend over backwards to help businesses relocate to their area. They even have a department dedicated to this effort run by Audie Lewis at City Hall.

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