

# Regional banks working to clean their books

By **Kat Greene**  
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The nation's largest banks are still struggling, but regional banks are cleaning up their books faster, paving the way for possible takeovers if the market turns around.

**SunTrust Banks Inc.** said it grew profit by 41 percent in the third quarter from a year earlier. But revenue at Atlanta's largest bank was down 5.2 percent.

That's because some of the bank's profitability came from moving money out of provisions for losses from credit and loans and leases.

SunTrust took nearly half of its provision for credit losses and put it back to work, leaving that fund at \$347 million. And its allowance for loan and lease losses was down 16 percent, to \$2.6 billion.

**Synovus Financial Corp.**, the second-largest publicly traded financial institution based in Georgia, reported a profit for the first time in three years.

It also moved a sizable chunk of cash out of loan loss provisions, cutting that reserve by 57 percent.

**State Bank Financial Corp.**, the Atlanta-based holding company of State Bank & Trust, will announce earnings Nov. 14.

Loan growth among banks is improving across the board, hinting that things are looking up, said Christine Quillan, portfolio manager at **A. Montag & Associates**, which manages \$900 million.

"It's not that there was tremendous loan growth that blew the doors off everything, but there was some growth in the loans banks were making," she said. "That's a

piece of the puzzle that's been missing for a long time."

The regional and super-regional banks are faring especially well, she said.

Big banks have many more areas of concern, such as desks that handle mergers and acquisitions or equity trading, which have struggled to make money this year.

"That's still kind of weak and messy for the larger companies," she said. "Prospects are probably brighter for the midsize regional banks more so than the really big banks."

Working against banks this cycle is what's known as net interest margin, the spread between how much it costs to borrow money in the short term and how much you can charge to lend it in the long term, said Matt Burton, president of **Narwhal Capital Management LLC**, which manages \$414 million.

If's how banks have made money lately: They borrow money at low rates in the short term and lend it at higher rates in the long term, making a profit on the difference.

As those rates tightened this quarter, so, too, did banks' revenue streams.

"How do banks make money past that model?" he said.

**Bank of America Corp.**, which this quarter was surpassed by **JPMorgan Chase & Co.** as the nation's largest bank, reported profit of \$6.2 billion this quarter, nearly paring a loss from a year earlier.

It's Atlanta's third-largest bank by market share.

**Wells Fargo & Co.**, the second-largest, had a profit of \$4.1 billion.

Both large banks, like SunTrust, dropped revenue.

Wells Fargo's revenue fell to \$19.6 billion from \$20.9 billion a year earlier. Bank of America's revenue held nearly steady, at \$3.11 billion, from \$3.15 billion.

The problem, Burton said, is the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The bill prevents banks from doing things that once brought in cash, such as certain proprietary trading with a bank's own funds.

It also includes the recently passed interchange rule, also known as the Durbin amendment, which tamped down on the fees banks charge retailers each time a customer pays for a purchase with a debit card.

"Dodd-Frank has created a nightmare situation for the banks right now," Burton said. "It'll be progressively harder to make money in the banking world."

Banks will be looking for a new revenue source, said Quillan.

"It's a mess because they're scrambling," she said. "There are lots of headaches that the bigger banks still have to work through," she said.

But smaller banks, many of which never got into the more complicated business of proprietary trading, have gotten out of hot water much faster than the larger banks could have.

Quillan and Burton are both buying shares of regional banks.

"I would not invest in the majors right now," Burton said. "It's just going to be a long, long pull."

## Earnings at Georgia's largest banks



**SUNTRUST**  
SUNTRUST BANKS INC.  
Revenue: \$2.2 billion  
Percent change: -2%



**WELLS FARGO & CO.**  
Revenue: \$19.6 billion  
Percent change: 6.2%



**Bank of America**  
BANK OF AMERICA CORP.  
Revenue: \$3.11 billion  
Percent change: 1.1%

And because the smaller banks can get back to a healthy stance sooner, it makes them likely buyout targets for big banks when they recover.

"Regionals is where you're going to see the first real action," Burton said. "The feeding frenzy on the regionals is going to happen because that's going to be the quickest way for them to grow their top line."

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