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## Economic Crisis: How Are Our Banks Doing?

By *Sophie Braccini*



John Rossell CBC CEO Picture courtesy of California Bank of Commerce

The local community of smaller banks has been able to avoid most of the mortgage loans and swaps that have hurt their larger counterparts. They run a simpler business, know their clients well, and lend back to them, in what is more or less a closed system.

Recent earnings statements are reassuring.

Mechanics Bank is a family owned institution which, according to D.D. Felton, Vice-Chairman of the Board, "has spent 104 years being very conservative." The great grand daughter of founder E.M. Downer believes that this is the reason why her bank is so well positioned to face the tough times ahead. Last week the Orinda resident visited the 33 offices of the bank, located from Napa, to the East Bay to San Francisco, with one in each of our Lamorinda cities. They all reported a rise in deposits, and number of customers. Felton attributes the growth to the partnerships that have been built over the long term with their customers. This knowledge has allowed the bank to mitigate risk and as a result enjoys a 5-Star rating with Bauer Financial.\*

California Bank of Commerce cannot boast such a long history. It was founded a little more than a year ago in Lafayette, but it is just as pleased with the growth of its business. Total Assets were up by 20% over the end of the second quarter, 2008. Total Loans grew 45% and Total Deposits grew 19% over the same period.

"Margins continue to be under pressure," says John Rossell, President and CEO of the Bank, "the Federal Reserve is pushing rates down and controlling the prime

rate, and so community banks lend at prime, meaning that our earning side is weakening." This affects banks all over the country and Rossell believes that California Bank's unique approach has preserved them from the common fate. "The bank is safe and still growing, we live on Main Street not on Wall Street," adds Russell, who is happy with the latest results especially the good growth for loans and deposits. The Bank has no problem serving the borrowing demands of their customers, mostly commercial and industrial companies who borrow from one to four million dollars.

We find the same generally positive situation at the Union Bank of California. The bank, a subsidiary of the Mitsubishi UFJ Financial Group, with offices concentrated in California and local branches in Moraga and Orinda, announced in its third quarter statement a growth of total revenue from \$721 million this quarter, up 13 percent compared with third quarter 2007 and a decrease of its net income from \$127.5 million a year earlier to \$104.8 million this quarter.

At Union's Moraga branch, Dimitry Bokman, the Branch Manager, reports good results. The bank has not been involved in risky mortgage operations and they strive to be local partners. "We cater to the needs of individuals and businesses on a one on one basis," says Bokman, "we actually pick-up the phone when people call us." A significant percentage of his business customers are professional services which do not seem to be experiencing extreme difficulty at this time. Bokman has not noticed any new trends in the credit requirement of his customers and the bank is able to continue its philanthropic efforts: They gave \$2,500 for Moraga's summer concerts in the park and are sponsoring "Kids' Day" with the police department on November 15th that aims to fingerprint all elementary school students. The bank will give \$1,000 to schools at which at least 70% of the students participate.

The question is how the banks' situation will hold if the recession persists and how they will support their clients. "Our customers have already been in a recession for seven months," says Rossell, "but their financials are still sound and we don't have one delinquent loan." The CEO wants to remain a participant in the economy, whatever the downturn, "There is a temptation to not process any more loan," he adds, "but our Board of Directors doesn't want that, we want to bring in new deposits, and we won't freeze borrowing."

"We have been working side by side with our clients in good and bad times in the past," adds Felton, "we see the coming times as very tough and we will stick with the fundamentals that have made us successful: pricing for risk, having reserves, saving."

\*Bauer Financial compiles financial data for U.S. banks and thrifts from call report data as reported to federal regulators. The web site is [www.bauerfinancial.com](http://www.bauerfinancial.com), 5 Stars is the highest rating.

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