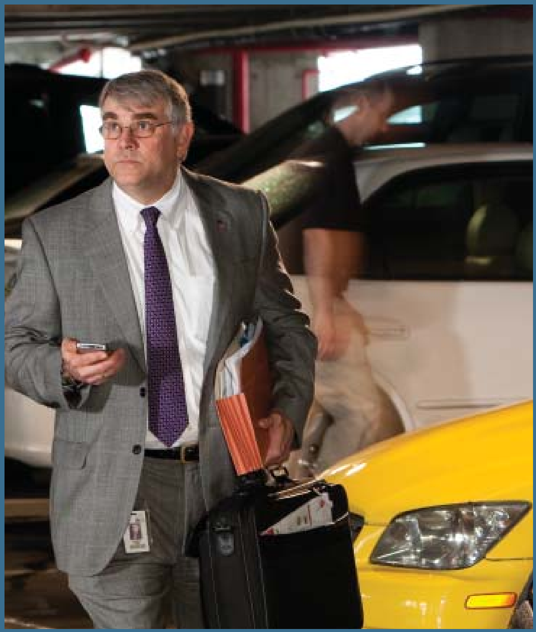

Joseph Hale

Community bank safety and soundness examiner covering institutions in Georgia and north Florida

Eight years of service

For most of the eight years he's been with the Atlanta Fed, Joseph Hale was able to leave his work behind at the end of the day.

"But that's not the case any more," Hale says. "We all want to see banks do well, and we want to be part of the solution to turning around the economy. So sometimes we take those worries home with us in the evenings."

There was plenty to worry over in 2008. Among the sixty-one community banks (those with under $10 billion in assets) that the Atlanta Fed regulates, there was a roughly fourfold increase in the number of troubled institutions, according to FDIC data.

For examiners like Hale, who are on the front lines in the Fed's efforts to safeguard the safety and soundness of the nation's financial system, troubled banks mean an intensified work schedule. In normal times, examiners thoroughly check a bank every twelve to eighteen months. When a bank's condition deteriorates, the Fed initiates some type of on-site examination activity at least every six months.

That means longer, more stressful hours for Hale and his fellow examiners. There are sometimes difficult dealings with bank executives and directors and more frequent meetings with bank boards of directors. At those meetings, examiners reveal overall soundness metrics that gauge capital adequacy, asset quality, and earnings, among other measurements.

During the financial difficulties of 2008, those meetings centered on asset quality, in particular on loans ninety days or more past due, which are known as classified assets. Ideally, the examiners' findings concerning classified assets are no surprise to a bank's board.

That was usually the case in 2008. In contrast, meetings in late 2007 had often been tense as widespread problems related to real estate development lending began to surface. "There was some resistance to our recommendations then," Hale says. "Now, everybody pretty much has been affected, especially in the Sixth District."

To help affected institutions cope with deteriorating loan quality, Fed examiners will recommend various measures. To strengthen underwriting standards, for instance, Hale might recommend that a bank track its real estate loans in greater detail.

Rather than simply lumping loans together under a general "commercial real estate" category, he would advise a bank to stratify loans based on risk: loans made to a developer to buy land or to a builder to construct houses, loans to build hotels or convenience stores, or loans to develop owner-occupied commercial properties. Then, the bank might be asked to place internal limits on its lending volume in each of those more precisely defined classes of loans.

In retrospect, for community banks the lessons from one of the most severe crunches since World War II may boil down to fundamentals. "Usually," says Hale, "the problems we've seen involved excessive risk taking and trying to show better numbers than the bank down the street."