

Philadelphia banks not seeing Bear-like problems

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By Harold Brubaker, Inquirer Staff Writer

The collapse of investment bank Bear Stearns Cos. Inc. into a competitor's arms showed that Wall Street's troubles remain severe. But the sale of Bear Stearns to JPMorgan Chase & Co. - with Federal Reserve backing - at a steep discount does not mean conditions changed overnight for Philadelphia-area financial companies.

"We're doing business, and our business is continuing as usual," John Chuff, chief operating officer and director of capital markets at Boenning & Scattergood Inc., a diversified regional investment bank in West Conshohocken, said yesterday. While the downturn in housing and mortgage lending already is eroding economic growth, Chuff and other analysts said the spillover from Wall Street to the general economy had been limited. That may not last forever, Chuff cautioned. "If we can't get through this area of illiquidity in the next couple of quarters, it will have a broader impact," he said.

Right now, the problems on Wall Street are concentrated in investment banks' holdings of mortgage-related securities. Given the collapse of the housing market and the surge in defaults, banks lack confidence in the value of securities backed by mortgages. Many large financial institutions, such as Bear Stearns, use mortgage-backed securities as collateral on short-term loans up to 30 days. Lenders have been demanding more and more collateral. Where a lender once asked for \$12 million in securities as collateral for a \$10 million loan, the lender now might ask for \$15 million or more in collateral.

To combat this problem, which is crimping credit by eating up space on the balance sheets of financial institutions, the Fed in the last week made two key changes. It dramatically expanded the forms of collateral it accepts for loans to investment banks, and it made additional kinds of financial institutions eligible to get loans from the Fed.

Eric Green, director of research and senior managing partner at Penn Capital Management Co. Inc., of Cherry Hill, praised the Fed's moves. "We need them to step up and put the liquidity back in the market," he said.

Curtis Financial Group L.L.C., an investment bank with offices in Philadelphia and Pittsburgh that specializes in deals ranging in value from \$10 million to \$150 million, is seeing tighter credit by lenders.

Kevin J. Rudd, Curtis Financial's president, said commercial banks used to be willing to lend a buyer four or five times a company's cash flow for an acquisition. Over the last month or so, that lending ratio has fallen to three times the cash flow, he said.

Rudd said he used to think the problems were isolated to Wall Street firms.

"I think it is going to start to affect us," he said.

By contrast, National Penn Bancorp Inc., of Boyertown, Pa., has not tightened credit, chief financial officer Michael Reinhard, said.

"I'm not too sure we ever loosened credit," he said. "Volumes are just fine for us. We're doing what we always do, which is making loans to small businesses."

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