

Banker sees slow recovery in 2003

RIISING CREDIT CARD DEBT IS A CONCERN

BY JORDAN FOX, for SBT

While uncertainty lingers amid the business community despite improvements in the economy, Wisconsin's banking industry is in pretty good shape, according to a Sheboygan banker.

Business conditions here are improving, according to an outlook survey recently released by the Metropolitan Milwaukee Association of Commerce. The survey indicated that 65% of the participating businesses expected sales increases in the new year, 60% predicted profit gains, and 41% saw a growth in employment. "The feedback that we're getting from our banking clients indicates some uncertainty, though," says Russ Schuler, chairman of Wisconsin Business Bank in Sheboygan and Green Bay.

"Some think that the business climate is turning better. Some think it's not quite turning. But our manufacturing customers believe things are stabilizing. And when it comes to the banking industry in southeastern Wisconsin, in terms of earnings, we are strong," he says.

"If you look at the positives, banks still have good reserves, and earnings to date are up over a year ago. But there are concerns in terms of our commercial portfolios as well as our credit card portfolios. With credit cards, we're seeing charges that are at record highs — but with lower rates, the margins are still fairly good. The credit card business is pretty much dominated by giant banks and non-banks. In Wisconsin, the bread-and-butter for our banks is the business of small and medium-size companies."

Schuler believes the banking industry here is in great shape, compared with the 1980s, when businesses were weak and a lot of banks failed. "The prime rate back then was about 20%. Banks are managing their balance sheets much better now," he says.

"We're all working hard to match up our assets and liabilities. To manage our margins so if rates go up or down 1%,

our income won't change more than 5%. We've got to structure ourselves that way," Schuler says.

"Interest rates today are at a 40-year low. I never dreamed they would get back down to the level they were at when I started in this business back in 1965. In terms of rates taking off, certainly they are going to go up again."

Schuler says his bank has a diverse portfolio and is positioned well for the future. "About 20% of our loans outstanding are manufacturing firms, and another 20% are service organizations, including doctors, dentists, etc."

Schuler believes there's an overcapacity today in industry in general. "But businesses have started to rebound, to go back to profitability. Let's face it. Banking is a reflection of our customers' businesses. If they do well, we do well. I don't expect a quick turnaround; instead I think we'll see a slow return to normal growth and profitability. What's driven growth so far is the strong automobile and housing industries. Commercial businesses, however, have been rather weak."

Schuler advises Wisconsin businesses to structure their balance sheets to work through difficult times. "Don't be out there buying equipment on short-term loans. Instead, get good long-term debt in place when you incur that obligation."

A survey of southeastern Wisconsin's publicly traded banking industry-related companies on Jan. 1 indicated a relatively stable portfolio: Marshall & Ilsley Corp.'s stock opened the year at \$28.07 per share, above its 52-week low of \$23.11; MGIC Investment Corp.'s stock was at \$42.57, above its low of \$33.60; Fiserv Inc. was at \$35.55, up from \$22.50; State Financial Services Corp. was at \$16.58, up from \$10.93; St. Francis Capital Corp. was at \$23.40, up from \$20.25; and Bank Mutual Corp. was at \$22.83, up from \$15.20.

And new banks continue to be chartered and to expand, with plans under way for a new commercial bank in Burlington to be called Fox River State Bank, and with movement of several other banks into downtown Milwaukee and the Milwaukee market.