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Hawai'i banks unfazed by financial storm

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HONOLULU — Take a quick stroll among the palm trees and commercial towers in Honolulu's financial district and names like Washington Mutual, Bank of America and Wachovia are nowhere to be found.

The dominant players here are Bank of Hawaii, American Savings Bank, Central Pacific Bank and First Hawaiian Bank, as they have been for decades. And unlike some of their larger Mainland counterparts who have been drowning in a sea of red ink, Island institutions continue to post strong, even record, profits. And so far, they have withstood the nation's mortgage meltdown.

"We're the luckiest bank in the world," said Allan Landon, chairman and chief executive of Bank of Hawaii.

It wasn't all luck. The four banks are weathering the financial storm by avoiding subprime lending, maintaining their conservative practices and keeping in mind the region's long-lasting economic downturn in the 1990s. That's when the Japanese financial bubble burst and so did all the frenzied, speculative buying by international investors that inflated real estate prices in Hawai'i.

"They've seen these cycles, so they understand that being old-fashioned or being conservative may not be sexy, but over the long term, it's proved to be a sound business practice," said Gary Fujitani, executive director of the Hawaii Bankers Association.

For the past two months, the banking industry has been pummeled by forces not seen since the Depression. Some of the biggest and most powerful banking companies in the country — with names such as Washington Mutual, Wachovia and National City — have disappeared, swallowed by larger companies in an effort to avoid a total collapse. Others continue to struggle. Just last week, Citigroup said it would eliminate 53,000 jobs, as its shares plunged and analysts speculated that it will have to be broken up or sold.

It's not complete doom and gloom, though. Some banks are showing financial resiliency and the ability to churn out profits.

And perhaps nowhere is the success as widespread as it is in the Aloha State. These banks did what successful financial institutions have done for decades: Pay close attention to the balance sheet and lend to people who can pay you back. It's a roadmap, experts say, that could be used to help the rest of the industry save itself.

"Sound underwriting never goes out of fashion," said Diane Casey-Landry, chief operating officer of the American Bankers Association, who added that prudent lending standards are now being more widely adopted.

"Real banking, in a sense, is back," she said. "The underwriting that was being done by some of the nonbanks and new players in the market, was not the underwriting banks were doing. Banks have always had a higher standard."

Banks and other lenders that purchased or made bad mortgages by the billions got away from the fundamentals. Not so in Hawai'i.

"The bottom line is, we're a pretty conservative lot," Landon said. "We've got enough people who've been around to remember when banks got in trouble before, and that's not a fun place to be."

Landon said he could never find out how to make money on the new products that were being offered

over the past several years.

"I can't think of an interest rate you can charge to make up for losing your principal," he said.

Not only are the banks here conservative, so are many borrowers. They largely stayed away from risky mortgages from outside lenders that underwrote mortgages with very little down, changing rates and no income verification.

"You have a combination of good banks and a little more conservative culture. You put those two together and we're a little better off," said Tim Schools, president of American Savings Bank, who estimated that 90 percent of his companies mortgages were traditional 15- and 30-year products.

Also, many home buyers purchased properties with the intention of living there for a long time. There wasn't as much "flipping" or speculative buying as in other sunshine states such as California, Arizona, Nevada and Florida.

"I think there's a different perspective of a home," Fujitani said.

Exotic and subprime mortgages do exist here, but the percentages are small since they were offered only by outside lenders, some of which have closed shop. This may have helped shield Island residents from the array of mortgages and products that were readily available in other states.

Despite their small presence, out-of-state lenders own the bulk of foreclosures in Hawai'i, according to the state Division of Financial Institutions.

While Isle foreclosures have been rising at a brisk pace, they are still much lower than the national average.

There are nine FDIC-insured, Hawai'i-based financial institutions, and all of them are considered well capitalized. The big four, which own more than 90 percent of the state's \$27 billion in deposits, reported impressive third-quarter earnings, especially in this financial climate:

- American Savings, a subsidiary of Hawaiian Electric Industries, earned \$15.4 million, up 31.6 percent from a year ago.
- First Hawaiian, owned by France's BNP Paribas, reported record profits of \$55.4 million, up 6 percent.
- Central Pacific returned to a profit of \$3 million after heavy second-quarter losses relating to its exposure in California.
- Bank of Hawaii earned \$47.4 million, down slightly from the \$47.8 million a year ago.

In another show of confidence, Territorial Saving Bank announced this week it would go public in the first quarter of 2009, despite the economy. For the first nine months this year, the company earned \$6.5 million, up 33 percent from the year-earlier period.

Hawai'i isn't the only place where banks are thriving. There are about 8,400 banks nationally and the vast majority are smaller community banks that never made or acquired risky loans, according to the Hawaii Bankers Association.
