Access to credit may tighten, but Michigan banks maintain ‘strong’ health

BY MARK SANCHEZ
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Michigan’s banking sector remains in good shape, despite the high-profile collapse last month of Silicon Valley Bank in California and New York’s Signature Bank that gave rise to concern about the state of the industry.

Overall, “the banking industry here in Michigan is strong,” Patricia Herdon, chief policy officer for the Michigan Bankers Association, told state lawmakers during a recent presentation to the House Financial Services Committee.

Herdon noted that the state’s top banking regulator, Michigan Department of Insurance and Financial Services Director Anita Fox, offered the same assessment in recent testimony to legislative committees on the state budget.

“It is not just our opinion, but that of our regulator as well,” Herdon said.

While the two big bank failures caused disruption in their respective markets, bankers generally had already been tightening access to credit because of a U.S. economy that’s been slowing over the last year because of rising interest rates.

As MiBiz reported last month, lenders have reacted by taking deeper dives into due diligence for loan requests. Some banks in western Michigan also have been keeping in closer contact with commercial borrowers to see how they’re prepared for any economic downturn that may occur, and to gauge their sensitivity to higher interest rates and high inflation, bankers said.

Economists at the American Bankers Association reported in April that they expect business and consumer credit conditions to weaken over the upcoming months as the U.S. economy continues to slow and potentially moves into a recession in the latter half of the year.

For one, PNC Bank expects the Federal Open Market Committee to increase the key federal funds rate another 0.25 points in May and predicts a mild recession in the second half of 2023.

“The economy will start to turn around in mid-2024 as the Fed cuts interest rates early next year in response to the recession. The unemployment rate will increase throughout the rest of this year, peaking at above 5 percent in

mid-2024, before starting to decline with an improving economy," PNC economists wrote in an April 7 briefing to clients.

Brooks Kindel, a financial and management consultant with the Michigan Small Business Development Center, expects that commercial lenders may continue to tighten access to credit, although not specifically because of the large bank failures.

Instead, banks are giving greater scrutiny to credit requests because high inflation and rising interest rates have put more pressure on companies, Kindel said.

Despite that closer scrutiny, businesses with a strong balance sheet and that are performing well should have the ability to access the credit they need, said Kindel, who consults with small businesses in western Michigan.

"Whether it's now or any other time, there's plenty of money out there looking for a good investment opportunity," Kindel said. "If you have a good model and you're starting off on the right foot, or you have a business that has been up and running for a while and is well-managed, you're always going to be able to get the capital you need for expansion and growth."

Startup companies are likely the exception to that, Kindel added. Startups that lack collateral or that are formed by an entrepreneur without a track record have traditionally struggled to access funding, he said, adding that the economic uncertainty may make that process even harder.

"It's going to be a challenge for startups that require any kind of significant capital," Kindel said. "If you were starting something where you needed to buy equipment or machinery or something else, that's going to be more challenging."

Despite the failures of Silicon Valley Bank and Signature Bank, Kindel said he remains unconcerned about the U.S. banking system.

"You shouldn't worry about the vitality of the banking system," Kindel said. "Things have a way of working themselves out. It's certainly no reason to panic. We're not going to go through another 1929 again, but I think it also shows that some of the regulations that have been unwound in the last few years since the 2008 crisis maybe had a more important role to play when it comes to the banks' capitalization, stress tests and so forth.

"There are cycles where times are better or worse than whatever normal is, but there's really nothing that I can see, or in feedback from our clients, that is an apocalyptic perspective on things."

That lack of worry was echoed by Steven Doorn, director of portfolio management at trust bank Legacy Trust in Grand Rapids, who's worked in the financial services industry for 30 years.

"I don't think there's anything broadly worrisome," Doorn said. "From a banking and financial stability perspective, I don't think this is a widespread systemic problem. That's not to say there aren't banks that are being caught off-sides."

The greater due diligence and loan requirements some banks are now imposing, such as requiring more collateral, reflect the economic environment, Doorn said.

As well, bankers have long memories of lessons learned from the 2008 financial crisis that hit the industry hard, caused loan losses to spike and led to numerous bank failures.

“2018, it still creeps back into people’s minds,” Doorn said. “The potential is that you’re going to see much tighter lending standards, and that has the potential to, obviously, throw some sand in the gears of the economy a little bit, especially for more small and medium-sized businesses that are more dependent on bank financing.”