CARMEL - Under pressure from federal regulators, Putnam County National Bank has agreed to changes in its banking practices in the wake of increases in poorly performing loans.

A 14-page contract that the bank signed with the U.S. Comptroller of the Currency outlines a broad series of steps the bank must take in lending policies, managing risk and setting allowances for loan losses.

STAFF

Among other things, Putnam County National agreed to name a new senior executive responsible for credit issues at the bank, owned and managed for years by the Ryder family. The bank also agreed to set up a range of written policies governing lending and other practices.

The contract, called a "formal agreement," is an uncommon step that the Comptroller of the Currency takes with financial institutions. Putnam County National was one of only 62 banks that signed them last year.

The Carmel bank, with assets of $156 million, is in the enviable position of being one of the best-capitalized banks in the nation. Capital, the amount held by the bank's shareholders after its liabilities are subtracted from its assets, is a measure of a bank's ability to weather troubled times.

"This bank could write off every single loan that's not current and still be well-capitalized," said Bert Ely, an accountant and banking consultant in Virginia who read the agreement and the Carmel bank's financial statements.

But the relative size of the bank's problem loans has drawn unflattering attention in the industry. In January, American Banker, a national trade publication, ranked Putnam County National 28th on its list of 150 banks in the country with the highest ratios of nonperforming loans.
Of the Carmel bank's gross loans and leases at the end of the third quarter of 2006, 7.05 percent were nonperforming, or $7.97 million worth, American Banker said. The ratio was down from 10.97 percent a year earlier.

At least part of the bank's loan problem can be attributed to its sharp growth in overall lending during the past 10 years.

At the end of 1996, a large share of the bank's assets, 46.5 percent, was in securities such as U.S. Treasury notes, according to data from the Federal Deposit Insurance Corp. Loans accounted for just 38.4 percent of assets.

Ten years later the trend was reversed. Loans made up 72.8 percent of the bank's assets, while securities had dropped to 12.1 percent. Real estate and commercial and industrial loans both were up sharply in the 10-year period.

Bank President Dean Ryder said the bank was responding to a changing market. "This area has grown pretty dramatically since the mid-'90s," he said. "During that time period, the demand for loans has increased, so we put the money into the community."

Ryder said he and his brother, Wayne Ryder, the bank's chief executive officer, handle all the loan applications. The bank's willingness to keep problem loans on the books reflects a philosophy of working with business people, even when they're struggling, Dean Ryder said. The bank has foreclosed on only one loan this year, he said.

"We know our borrowers. It's not, '60 days (late) and we foreclose.' It's, 'OK, what can we do to get you over this bump?' " Ryder said. "And sometimes it takes years."

Such a philosophy can set small community banks like Carmel's against regulators, said Eric Gouvin, associate dean of the Western New England College School of Law and an attorney who has practiced banking law.

"We're losing that in this country (with) these big, huge megabanks. It's nice to have a local bank that knows the local economy and can say, 'He's going though a tough time now, but I'll hold on to it.' "

Gouvin warned that the nation's lending landscape is changing in ways that can affect the Carmel bank, especially since its exposure to real estate has grown in the past decade. Collateral values are slipping in the wake of national problems with subprime mortgages, he said, as more houses are subject to foreclosure and wind up on the sales market. That trend endangers loan values as much as late payments do, he said.

"If those loans weren't written with pretty tight underwriting, their loans and everybody else's loans are going to be in trouble soon. And not just the subprime ones," he said. "My sense, and I think the regulators are sensing this as well, is we can expect price corrections across the board."
Gouvin said he was struck by the comptroller's requirement that the Carmel bank hire a senior credit executive.

"To me, that's something that's not typical. That's more them coming along and saying, 'We've lost confidence in this person. You really need to not only get your policies in shape, you need to monitor your assets better. You really need somebody else doing it,'" Gouvin said.

The bank has hired Deborah Tripodo, a Wingdale native who formerly worked at the Bank of New York, as vice president and senior credit officer. Ryder said examiners who reviewed the bank's performance several weeks ago had said the bank was in "full compliance."

Reach Jerry Gleeson at jgleeson@lohud.com or 914-694-5026.

--- INDEX REFERENCES ---

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