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Community banks aren't yet feeling pinch of Wall Street meltdown

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If some Bay Area community bankers cup a hand to their ear, they can just make out the rolling thunder and cries of doom coming out of the nation's capital.

But just barely.

For the most part, it's been business as usual — or even better — for local banks, which have escaped much of the subprime-mortgage carnage because they weren't in the home mortgage market.

"We haven't seen a lot of cracking yet in that small to mid-size segment (of businesses) we love to service," said John Schrupp, president and chief executive of United American Bank in San Mateo.

Schrupp said he's spending more time calming nervous depositors, but that the bank is holding its own on the lending side. "We haven't seen a big drop-off in demand, or commercial clients coming in with battered balance sheets showing red ink."

He said he hopes the federal bailout package, whatever it turns out to be, will promote continued liquidity and calm people down.

Community banks are smaller and locally owned, and they tend to lend within their area to mid-size and small businesses. Some are full service, while some lend only to businesses. There is pain being

felt by some medium-size banks, said Darrell Duffie, finance professor at the Stanford Graduate School of Business. And "some small banks have defaulted," he said. "You don't read about them because they are small."

With typically less than \$1 billion in assets, community banks are less interconnected with Wall Street than the big institutional banks, which have been hit hardest by the credit crunch. The collapse of a New York investment bank is much less likely to have an immediate impact on them.

Borrowing from the larger banks has become almost impossible for companies that used to be considered good credit risks. That is what has caused credit markets to "seize up," said John Shoven, director of the Stanford Institute for Economic Policy Research.

All but the biggest companies, such as Microsoft and Google, which don't need the money, are being shut out, Shoven said. "The commercial paper market seems to be closed" to companies that are rated A rather than AA or AAA by the rating agencies.

That loan vacuum has opened up opportunities for smaller banks.

John Russell, president and chief executive of California Bank of Commerce in Lafayette, describes the disconnect between Wall Street and Main Street as "surreal."

His bank, which focuses on businesses, is a little over a year old, with \$100 million in assets. It's booking \$4 million a month in new loans, Russell said, and is growing aggressively.

"So far, we see very little effect of what's happening on Wall Street," Russell said. "I suspect what's happening on Wall Street has not yet trickled down

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to Main Street, and whether or not it does will be a function of whether Congress can get its act together" and pass a bailout package.

Henry Kiang, corporate counsel for Metropolitan Bank in Oakland, a full-service bank with \$138 million in assets, said it has already met its 2008 goal for growth. "We've done all right in this climate," Kiang said. "We could say some community banks are even flourishing in this environment."

Fremont Bank, with \$1.3 billion in deposits, says it's still making loans, but being a little more conservative.

"We're looking at things a little more closely," said Tom Rose, director of branch sales. "We're probably taking an extra two or three steps, and thinking about it an extra half-hour. We're only being ultra-conservative versus conservative right now."

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