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## Troubled bank's portfolio heavy on residential real estate

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Harleysville National Bank & Trust Co.'s troubles - highlighted this week when regulators ordered the bank to raise more money - stem from its heavy reliance on residential real estate loans.

How heavy? Forty-four percent of all its loans are in single-family homes - the highest percentage among the 10 biggest banks with headquarters in the Philadelphia region.

Add in loans for construction and land development, many of which involve residential projects, and the total came to half of Harleysville National's \$3.6 billion loan portfolio, as of March 31.

For the 10 banks in aggregate, 26 percent of \$32.8 billion in loans are in the residential real estate category covering homes for one to four families. The bulk of them are single-family dwellings.

Like banks everywhere, those in the Philadelphia area are seeing higher delinquency rates as borrowers lose their jobs and homebuilders are stuck with houses built on speculation or raw land where houses might not sprout for years.

While Harleysville National was the first of the bigger banks here to be called out by regulators, a bank investor said he expected that a significant number of Philadelphia-area banks soon will have to boost their capital. Harleysville National expects to raise between \$65 million and \$120 million from private investors within two months.

Bob Hendershott, a fund manager at the Context BH Equity Fund in Bala Cynwyd and a finance professor at Santa Clara University in Santa Clara, Calif., conducted stress tests on about 6,000 U.S. community banks with between \$50 million and \$500 million in assets, including 36 in the Philadelphia region. His stress tests were similar to those conducted in April by federal regulators on major national banks to determine their financial health.

Hendershott found that about half of the Philadelphia-area banks would have to bring in new money in the next two years to help recover from losses caused by defaults on loans. He said that is not because losses have been so severe, but rather because the banks here came into the nationwide downturn with significantly less capital than the average bank across the nation. Banks are required to maintain certain levels of capital reserves to withstand defaults.

Harleysville National does not have the highest rate of loans in default - that is, those behind on payments at least 90 days - according to an analysis of Federal Deposit Insurance Corp. data.

That spot is held by The Bank in Woodbury, a subsidiary of Fulton Financial Corp. in Lancaster, with \$2.1 billion in loans outstanding. The Bank's overall 90-day delinquency rate was 3.69 percent on March 31, and more than 10 percent of its construction and land-development loans were behind on payments. At Harleysville, 2.42 percent of its loans were in default.

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