

Rochester & area lenders more optimistic this spring than in 2023

■ CAURIE PUTNAM

The spring of 2023 was a challenging time for the U.S. banking industry with the collapse of three banks between March and May, surging inflation and rising interest rates. A year later, challenges remain, but optimism is also present, according to local banking leaders.



Michael Overmyer

“It’s certainly a better climate than heading into last summer,” said Michael Overmyer, a partner at Lippes Mathias LLP. “Most banks that had completely stopped lending a year ago have reentered the marketplace and are actively lending. At the same time, big and small banks are looking for really good quality sponsors and operators.”

Overmyer concentrates his practice on banking and financial services and says that in Western New York, companies in the real estate, commercial and industrial sectors are, for the most part, quite strong with good cash positions currently.

The rate environment does continue to be a challenge, he says, most notably for commercial construction projects, but the region seems to be faring better than others in part due to the community banks anchored here that are continuing to lend.

“Your larger banks are probably the most cautious, particularly ones that have geographic footprints outside of upstate New York,” Overmyer said. “As you get into your middle market banks with footprints just in the Northeast or the Midwest they have more appetite. And our community banks, which are just Western New York, have the most appetite.”

Part of this, Overmyer says, is due to larger lenders potentially having more problems with their portfolios in the larger markets they serve.

“Community banks don’t seem to have a lot of problem loans in upstate New York,” he said. “They don’t have a lot of Manhattan real estate exposure or DC real estate exposure, for example, that they’re concerned with. Community banks

are still very active and are also very deposit heavy.”

While construction and borrowing costs remain high, Overmyer is optimistic and busy.

“There’s real demand,” he said. “Our banking group is quite busy on the commercial real estate side, and I think that’s a good sign if we’re busy this early in the year.”



Tim Brown

Tim Brown has also been quite busy since becoming the first Rochester regional director of Evans Bank in December. In this role, he’s responsible for the Rochester commercial and industrial team and executing a growth strategy in the overall Rochester market.

“We’ve seen as interest rates are staying high that some banks have become more stringent with their lending,” Brown said. “Whereas at Evans we have seen a flurry of lending activity in the first quarter. We’ve got a robust pipeline and I see that carrying throughout the rest of the year

simply because unlike big banks we can be more adaptive to our clients' needs."

These needs for business clients, he notes, include the high cost of capital, liquidity requirements, regulatory challenges and cybercrime.

"Cybersecurity and fraud are big issues, and everybody is working to try to stay one step ahead of it," said Brown, who shared that Evans Bank will be hosting upcoming cyber hygiene events featuring cybersecurity professionals from federal agencies and the bank for clients and prospects in Rochester and Buffalo. "As a community bank, we're bringing our knowledge to our clients and our communities."



Philip L. Pecora

At Genesee Regional Bank, Philip L. Pecora, president and CEO, says consumer and business customers are overall in good shape.

"I tell our board all the time that we should be proud of our credit culture and our credit quality," Pecora said. "It is pristine right now and as an industry, it is pristine as well."

Pecora says that the bank's strong credit quality is a positive indicator that its consumer and commercial clients are overall doing well even with challenges like higher interest rates, inflationary pressures

and limited real estate inventory in some sectors.

"We're going to have a very strong year despite there being some caution in the small business middle market arena," Pecora said. "We're still lending a lot of money and we're going to reach, if not surpass, what we did last year in terms of originations."

Pecora remains confident in Rochester as a unique banking market that tends to sail between volatile economic highs and lows.

"You see a lot of talk about the weakness in the office sector in the big cities," Pecora said. "For better or for worse, we never really had that exposure as a bank or as a community. We don't have a large metro area with a lot of office space, so we haven't had those concerns here."

Alson James McKenna, a partner at Phillips Lytle LLP, believes the biggest challenges local commercial borrowers are facing right now are higher interest rates combined with increased project costs.

"This combination has made many deals that would have worked a couple of years ago no longer viable from an underwriting standpoint," said McKenna, who works with financial institutions, businesses, and individuals in complex transactions.

In terms of the biggest challenges local banks are facing currently, he points to the higher interest rate market causing a



Alson James McKenna

chilling effect on borrowers' willingness to undertake deals, and a lower deal volume has led to increased competition for creditworthy deals.

"Meanwhile, social changes with remote work have led to increased commercial real estate vacancies, especially with office space," McKenna said. "Recent efforts by federal bank regulators to increase bank liquidity have led to an emphasis by many lending institutions, particularly larger institutions, on increasing deposits and decreasing lending operations, which has reduced potential sources of funding."

On the positive side, McKenna points to recent changes to SBA lending guidelines — such as relaxed affiliation rules and permitting partial changes of ownership — that have increased the availability of government-guaranteed financing to new borrowers. He also believes higher interest rates are beginning to become normalized in the market, so they're no longer surprising.

"This new market presents opportunities for bankers and borrowers to make deals happen with creative solutions and by finding the right partners, such as accountants and attorneys, who can share their experience to solve challenges and move deals forward," McKenna said.