The Farmington Observer

Business

Marilyn Fitchett editor/591-2300

classifieds inside

12B(F)

O&E Thursday, December 12, 1991

Standard Fed receives rave reviews

By Tim Richard
staff writer

Misery and woe: The continuing savings and loan mess. Manufacturing jobs gone from the "rust belt." Housing starts down nationwide. Consumer confidence shaky.

Except at Standard Federal Savings Bank, the Troy-based thrift getting national attention as its earnings and share of the mortgage market climb. Why?

"A lot of good things are coming together," answered Thomas R. Ricketts, 60, completing his 11th year with the triple title of chairman, president and chief administrative officer.

"Sparkles like a diamond in a pile of charcoal," Forbes magazine said of Standard Federal last month.

STANDARD Federal's "good things" include a stable Midwest housing market, lower interest rates for home buyers, a growing gap between mortgage rates and the cost of savings, a successful attempt to bring in low-interest checking accounts, a lucrative mortgage servicing business, computerized efficiency and cost controls.

"We have focused on a few activities," said Ricketts, who has worked at the thrift since he graduated from the University of Michigan Law School in 1956. Sure, there are acquisitions, but they're in neighboring states.

"We're not going to Arkansas," he said, but his bank is deeply involved in Detroit's first new housing subdivision in 30 years.

"Upgrade from Hold to BUY," advised First Boston's analysts last month. It sees Standard Federal's earnings going from last year's $1.30 a share to $2.50 in 1992. Reason: The thrift's gamble that short-term interest rates would stay low "is paying off big."

"Good probability of a dividend increase in the next fiscal year," opined Olde Discount, noting SF's dividend has been 40 cents a year since 1989. "The lower rates have increased home purchases, spurred refinancing."

WESTERN THRIFTS have gone belly-up backing commercial ventures and housing. Ricketts saw two reasons why his thrift avoided that:

"One is that housing prices have never really gone up here (Midwest), so there hasn't been a lot of 'water,' so to speak, in housing prices. You compare a house price in Detroit to Boston or San Francisco or Orange County — those housing prices are double or triple what we have here.

"So when a little bit of hard times comes, it's easy to see why the 'water' comes out of those prices. There's a shrinkage of value, and the declines are pretty catastrophic.

"Second, there's been a historic situation where Michigan, particularly Detroit, has had a lot of ups and downs. So I think we've had less speculation, less overbuilding — an understanding that bad times can follow good.

"Contrast that with Arizona or California — they thought every day would be brighter, there'd be nothing but higher prices, up, up, up. They didn't understand that sometimes we have cycles in this country."

INFLATION will drop to the 3.5 percent range in the next couple of years, according to University of Michigan economists. That works to Ricketts' advantage:

"The lack of runaway inflation is great. It will keep homes affordable. It will mean reasonable expenses to operate a home.

"It'll keep interest rates moderate, too. A big portion of interest rates are usually inflation expectation."

Standard Federal's savings maturities are one year or less, and those rates have dropped farther than mortgage costs. "We're promoting checking accounts," Ricketts said. "You pay less interest on checking than CDs, and it doesn't add to your costs."

A big investment in computers in the two-year-old corporate headquarters on Big Beaver Road, plus its own staff of appraisers, mean the thrift can close a loan in only 18 days — even three or four days in a pinch.

"As long as we have competitive rates, we're the lender of choice," Ricketts said. Result: For the first time in history, SF closed $1 billion in loans. "We are increasing our share of the market. We do more than the next two competitors (Comerica and NBD) combined."

EVEN DETROIT, reeling and stumbling, is a prospect. Little noticed by suburbanites was a late November ceremony in Victoria Park, between E. Jefferson and the river on Detroit's far east side — the first new subdivision in the city in 30 years.

"We've sponsored 10 of 14 Homearamas. We're sponsoring the one that starts Dec. 6 in Novi. We said, wouldn't it be fun to do one in Detroit? Our involvement was leadership in financing 15 builders," said Ricketts, a graduate of Detroit's Cass Tech High and a leader in New Detroit, Inc.

"The city has been very cooperative — a boulevard, underground utilities, nice street lights, double-wide lots (155 of them), cul-de-sacs, not just old Detroit streets. The city long ago bulldozed it and filled in the old basements.

Thomas R. Ricketts
good things come together

"The homes will be $65,000 to $135,000, all with two-car garages. We've had 300 serious inquiries.

"Many work in downtown Detroit — a lot of city employees — mostly two-income couples. They're not the poor or homeless. We're not being Boy Scouts. This is a good business proposition."

THE THRIFT is widening its market lead by using its computerized services to acquire mortgages from others and do loan servicing work.

"We're doing it with 4 to 5 percent less staffing," Ricketts added.

Standard Federal also is seeking VISA credit card business — an area under attack by President Bush and Congress for high interests rates.

"That was unfortunate," Ricketts said of the failed attack. "You don't get far trying to regulate interest rates. The market is really in control.

"If people think the interest rate is too high, they have several options. One, there are lenders with credit cards at lower rates. Two, don't use this type of credit — equity home loans and other loans are available. Or, don't make the purchase. You do have a choice.

"It (Bush's remark) was surprising and, I guess, politics."

Smaller banks see opportunity in merger of giant competitors

By R.J. King
special writer

With the recent merger of two of metro Detroit's larger banks — Comerica Inc. and Manufacturers National Corp. — the cost of banking for both individuals and small businesses will likely become more expensive.

"When larger banks merge like Comerica and Manufacturers, they tend to increase their costs through additional fees charged to service checking accounts or lines of credit," said Lou Allen, a private banker with the Bank of Bloomfield Hills and former president of Manufacturers.

"A large bank has thousands of individuals to service and there is a tremendous amount of money needed to run branch offices, monitor accounts and track funds. At smaller banks like ours, there is no need for large back-room staffs, and the cost of banking to the individual is relatively low."

According to a recent article in the Journal of Banking and Financing, borrowers in a market with a highly concentrated banking system pay interest rates that range from a half of a percentage point to 2.2 percentage points higher than borrowers in the least concentrated markets, depending on the type of loan.

In turn, as mergers cause banking power to be concentrated in fewer hands, depositors tend to get lower interest rates, and borrowers, especially small businesses, are charged higher rates.

STILL, ALLEN welcomed the merger between Comerica and Manufacturers, citing the need for larger banks to compete more effectively with both national and international competitors. He added customer service, more so than economies of scale, will drive the industry in the years to come.

"Small institutions which place a premium on individual service have an excellent opportunity to expand their customer base," he said. "No one likes to wait in line or see the money in their checking account subjected to a lot of fees."

Customers of both Comerica and Manufacturers are unlikely to see fees rise in the short run, as the merger, which will operate under the Comerica name, will cut costs by eliminating duplicated operations. By closing 60 of their combined 413 branches and eliminating 1,800 of their 13,500 jobs, mostly through attrition and retirement, the new Comerica expects to save about $145 million annually by 1994.

Still, Robert Heinrich, president of Metrobank, formerly known as The Metropolitan Bank of Farmington, which works mainly with small business owners and has its main office in Farmington and two branch offices in Farmington Hills, said smaller banks are likely to gain immediately from the new Comerica.

"Whenever there is a large merger like this, we receive a significant falloff of customers from the big banks either because A.) A customer does not want to deal with a megabank, or B.) The customer feels he will be lost in the shuffle," he said.

Most recently, Heinrich said Metrobank received 30 to 40 additional small business applications following the announced merger in September of the First of America Corp. of Kalamazoo with Security BankCorp in Detroit.

"Our customers appreciate us because we keep banking simple," he said. "At larger banks, there is a fee for every service, and it's almost akin to Burger King banking, where you have a huge menu and pay for every little thing. At Metrobank, a customer pays one price to do all things. There is a monthly fee, and we don't nickel and dime you to death for using the night deposit box or making a simple withdrawal."

As for the future banking climate in metro Detroit, the most likely scenario is two-sided: A handful of large regional banks, often referred to as megabanks, and small financial institutions that stress personalized service.

"In the next five years, there will be megabanks and small banks, with almost no one in between," said Michael Vallee, president of Fidelity Bank in Birmingham, which has 12 branch offices in Bingham Farms, Bloomfield Township, Livonia, Southfield and Troy.

"As for the new Comerica, I look at it as one less competitor to contend with. When everyone is pitching for the same piece of business, one less player in the equation makes it a little bit easier to compete."

Caution advised for U.S. firms with designs on Soviet market

By R.J. King
special writer

The political unrest in the Soviet Union these days is giving area business people who see the country as a huge untapped market reason to pause.

"For any company wanting to get into the Soviet Union, I would advise them to tread very carefully as the country is still undergoing a major shake-out," said Karl Gregory, a professor of economics and management at Oakland University in Rochester.

"One should also consider the possibility of major instability in the winter because of food shortages and short tempers. To be successful now, a firm would have to be of significant size with significant cash to deal with all the obstacles that are sure to arise."

Gregory said the greatest obstacle to Western businesses trying to drive a stake in an economy of 320 million people is uncertainty about the rules. Exactly who owns property, who enforces contracts and who collects taxes are all questions as yet unanswered.

"I used to know the answer to all those questions, but not anymore," said Andor Weiss, president of All-Rite Tool Engineering in Livonia and a native of Ukraine. "Before I left my country in 1973, I knew who to call for favors or licenses, but now everything is drastically different. I would like to supply stamping dies to Soviet companies, just like I do here with the auto makers, but I don't know where to begin. There's such chaos there now."

WEISS SAID HE would wait to see how Ford and General Motors, both of which have started joint ventures in the Soviet Union within the last five years, fare before trying to tackle the Soviet economy.

"I'll see how they do over the next year, and then make my move."

As it stands, Ford and General Motors are willing to sell finished products to the Soviet Union, but they hesitate to invest in manufacturing there. It would require millions of dollars to open a production plant, by one estimate, an investment Ford and GM are not willing to make at the present.

But while Weiss and others may be prudent, some area businesses have aggressively pursued deals in the Soviet Union since Gorbachev unleashed perestroika in 1985. And for a single reason: The potential long-term rewards far outweigh any short-term risks.

Mikhail Kheynson, a resident of West Bloomfield and a native of Moscow, started selling everything from used cars to turn-key dental offices in the Baltic state of Latvia. By June 1992, Kheynson plans to open a Latvia-based plant that will produce modular housing for 3,000 families a year.

"We've been working with the Soviet Union since 1989 trying to set up these various deals, and only recently have we succeeded," said Kheynson, president of ICT (International Commodities Trading) Inc. in Lapeer.

"It's a long row to hoe, but there's no question food and housing are the number one priority. Companies anxious to send their products over must consider the infrastructure of the Soviet Union. It can be very difficult to move products and people from place to place."

Kheynson, who along with partners Edward Sykes, a resident of Farmington Hills, and Edward May said despite the many problems, the import-export firm was in for the long haul.

"You need a lot of patience, but the rewards are there," he said. Kheynson declined to provide sales figures for ICT. Currently, roughly one-third of the Soviet harvest rots in fields for lack of modern farming equipment, silos, delivery vehicles and highways. At the same time, the

Please turn to previous page

BUY STAMPS HERE

For your holiday convenience, the U.S. Postal Service has a special surprise in store for you. Actually, in lots of stores. That's right, we've made stamps available at stores displaying the EASY STAMP™ sign. At post office prices, too. So you won't have to go out of your way to get holiday stamps this year. Season's Greetings from the Postal Service.

You can buy stamps at these locations:

All A&P, Farmer Jack, Kroger and Meijer Stores.

Birmingham
Amy's Hallmark
665 S. Adams
Market Square
1965 Southfield

Bloomfield
Gail's Office Supply
6622 Telegraph

Clawson
Amy's Hallmark
1207 14 Mile Rd.

Redford
Telecraft Flowers
14020 Telegraph
Township Hardware
25880 Five Mile

Rochester
Avon Office Supply
2256 Crooks
L & L Food Center
3188 Walton Blvd.
Lytle Pharmacy
340 Main St.
Older Person's Commission
312 Woodward
Sharon's Hallmark
1394 Walton Blvd.

Troy
Troy Parks & Recreation
520 W. Big Beaver

Walled Lake
Marge's Hallmark
39890 W. 14 Mile Rd.

West Bloomfield
Felice Quality Supermarket
1116 W. Huron

Westland
Wayne/Westland Federal Credit Union
34646 Sims

EASY STAMP
UNITED STATES POSTAL SERVICE
OFFICIAL OLYMPIC SPONSOR