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Higher interest rates are coming. What that means for Albany-area banks

Tom Amell, CEO of Pioneer Bank, sees raising interest rates as necessary to stem inflation.

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Inflation is at its highest point in 40 years, the labor market is saturated and the Federal Reserve has signaled it will start to raise interest rates in March, with at least two more hikes expected this year.

So, what does that mean for lending at community banks after several years of extremely low interest rates?

Tom Amell, CEO of Pioneer Bank, sees raising interest rates as necessary to stem inflation, which at 7% in December is the highest it's been in decades. It will take a while, with periodic rate hikes, for things to edge back to normal.

"I've always talked about interest rates as a double-edged sword for banks," Amell said. "We’re in the risk-return business; we do need rates to be higher, so the banks have an appropriate risk return for the risk they're taking in lending. The other side is the impact on clients need to be managed too."

For example, Amell said a project may work for developers at an interest rate of 3.5%, but does it still work at a rate of 4.5% or 5%. There's also some uncertainty for commercial customers with variable interest rates as they rise.

"It may take some projects that would be beneficial to our community and they don’t happen because the metrics don’t work anymore," he said. "We want to see better returns and make sure they're appropriate for clients."

Pioneer Bank is the 10th-largest bank in the region with about $1.8 billion in assets and 22 branches.

It has grown from just over $650 million in assets when Amell took over as CEO in 2013. Since then, the bank built a new $16 million headquarters in Colonie and it has acquired several service businesses, including insurance, wealth management and benefits companies.

For 2022, Amell said he's still concerned about the impacts of inflation and supply chain struggles.

"Everywhere I go you see empty shelves. To curb rate increases, you have to have the goods available. If the goods are not available to buy, it’ll drive up the price," he said. "We need to get the supply chain moving again and the shelves full, and I haven’t seen that yet."

But he's starting to see the region turn a corner following a tough two years of the pandemic, with some loan demand gaining momentum again.

"We're starting to see the hospitality industry rebounding. It's been a stop and start with upticks and variants, but our hospitality customers are weathering the storm and starting to turn the corner," Amell said. "I'm optimistic 2022 will be better than 2021."