

BANKS: Low reserves issue plagues some banks

Capital crisis heightens risk of bank failures

BY BRIAN BANDELL

Dozens of South Florida banks scrambled for capital in the third quarter as 15 months of losses took their toll. But, for many of them, it may not be enough.

Miami-based banking analyst and economist Kenneth H. Thomas said the Federal Deposit Insurance Corp. will be busy shutting down banks in South Florida.

"Some of these banks have worse numbers than banks that have already been taken over," he said. "Why aren't they closing them now? Because the FDIC doesn't have the capital. They are picking and

choosing those who are in the worst shape and those without hope of getting capital."

Carlos J. Arboleda, practice director of the banking and financial services group for recruiter Stephen James Associates in Plantation, said he's getting lots of calls for workers from firms that help the FDIC shut down banks in Florida.

The quest for money in the third quarter generated more capital from parent companies or shareholders at 14 banks, but five of them were still below the capital ratios required by regulators. One other bank has until the end of the year to improve its capital ratio.

All but a handful of the 79 banks chartered in South Florida have reported their third quarter results.

The banks with the biggest capital shortfalls are Boca Raton-based Sun American Bank, Miami-based Republic Federal Bank and Miami-based Premier American Bank. Each had capital ratios that put them in a "significantly undercapitalized" condition.

A spokesman for Premier American had no immediate comment.

Republic Federal Bank is talking with potential investors, said CEO Walter Cook. "During this period, in which we seek capital, we have been fortunate to have maintained a diversified domestic and international customer deposit base."

Sun American Bancorp Chairman and CEO Michael Golden said the results reported by the bank subsidiary have not been finalized. While he continues to seek more capital for the bank, he said its results could change in light of new federal banking guidelines, released Oct. 30, that deal with how banks treat borrowers of distressed commercial real estate loans. Golden said those guidelines might reduce the amount of reserves his bank has preliminarily taken for its problem commercial real estate loans.

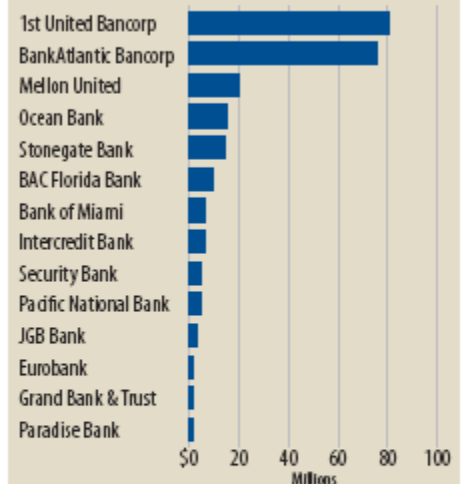
The new guidelines on commercial real estate loans should help banks in the fourth quarter, but the impact won't be significant, said Frank Gonzalez, who works with many local banks as a partner at Miami-based accounting firm Morrison Brown Argiz & Farra.

One change involves commercial real estate loans that are up to date on payments, but classified as noncurrent because the value of the property fell below the amount of the loan. The guidance allows banks to reclassify these loans as performing and no longer hold a reserve expense for them, Gonzalez said.

"It will provide some relief, but in the majority of the troubled loans I see, it is not a case where a loan was modified and performing," he said. "It's more about loans that are impaired because they aren't performing and not close to modification."

Nearly all South Florida banks have showed an increase in their problem loans in the third quarter, and some have regulators examining their books. That's not surprising because real estate projects are stalled, vacancy rates are rising and property values may bottom out at 40 percent to 55 percent below peak prices, commercial real estate experts have

SOUTH FLORIDA BANKS THAT ADDED CAPITAL IN THIRD QUARTER



Source: Federal Financial Institution Examination Council filings submitted by Nov. 2

shape," said Reid Mack, a banking consultant with Miami-based Jackson Witter and Associates. "I know that was a scheduled visit, but I would be surprised if they left without doing something."

C&D FOR VALLEY BANK

Fort Lauderdale-based Valley Bank, along with its two sister banks in Illinois, signed a cease and desist agreement with the FDIC that requires it to maintain an 11 percent total risk-based capital ratio by Dec. 31. With that ratio at 10.91 percent on Sept. 30, Valley Bank Chairman Larry Henson said the parent company would support it with capital as it plans to sell branches to Davie-based Floridian Community Bank.

The two local banks that fell into "adequately capitalized" status due to low capital ratios were Fort Lauderdale-based Bank of Florida - Southeast and Miami-based Union Credit Bank. Union Credit Bank spokesman Peter Whalen said the bank would make an announcement soon regarding a recapitalization, which rejected federal TARP funds.

Bank of Florida Corp. (NASDAQ: BOFL) announced plans to raise at least \$75 million through a public offering to bring its Fort Lauderdale subsidiary and two sister banks back into "well capitalized" territory.

"We are probably the most uniquely positioned franchise in Florida," said Bank of Florida President and CEO Mike McMullan, who serves on the company's board along with Fort Lauderdale developer Terry Stiles. "We have a powerfully positioned franchise and a powerful team of bankers."

Mack said Bank of Florida may have a difficult time soliciting capital, given the state of its loan portfolio and a relatively low level of reserves. The consolidated bank had reserves of about a quarter of its noncurrent loans on Sept. 30. Thomas considers a reserve coverage ratio below 50 percent to be a red flag.

"If the bank has cleaned the portfolio and taken the losses, then they can talk to investors," Reid said. "Until they do that, they are still playing a game with taking low reserves and restructuring loans that they know they have difficulty with."

Gonzalez said many local banks on the hunt for capital are having a difficult time because investors are concerned about loans portfolios and whether new capital would be consumed by increased reserves.

"One thing we learned from this crisis is that deep pockets doesn't mean they will reach

THIRD QUARTER RESULTS FOR LARGEST LOCAL BANKS

Bank	Q3 Income	Q2 Income	Noncurrent loan ratio on 9/30
GREATER PROFIT			
BAC Florida Bank	\$881,000	\$263,000	4.73%
Helm Bank	\$946,000	\$924,000	9.08%
Northern Trust	\$27.6M	\$18.2M	1.11%
FLIPPED TO A PROFIT			
City National Bank	\$314,000	(\$257,000)	4.14%
Coconut Grove Bank	\$1M	(\$2.3M)	7.93%
1st United Bank	\$184,000	(\$1.9M)	2.4%
Lydian Private Bank	\$154,000	(\$9.8M)	5.37%
NARROWED LOSSES			
Espirito Santo	(\$67,000)	(\$379,000)	4.53%
Grand Bank & Trust	(\$402,000)	(\$3.9M)	5.4%
Mellon United	(\$18.3M)	(\$119.1M)	19.95%
Ocean Bank	(\$11.5M)	(\$40.6M)	17.85%
Sun American Bank	(\$14.3M)	(\$15.7M)	14.4%
TransAtlantic Bank	(\$812,000)	(\$2.2M)	4.13%
FLIPPED TO A LOSS			
U.S. Century Bank	(\$14.2M)	\$111,000	6.46%
DEEPER LOSSES			
BankAtlantic	(\$35.3M)	(\$24.2M)	7.42%
Bank of Florida, Southeast	(\$13.6M)	(\$2.1M)	9.23%
Bank of Miami	(\$18.5M)	(\$3.4M)	21.45%
Community Bank of Florida	(\$625,000)	(\$166,000)	11.75%
Great Florida Bank	(\$13.3M)	(\$6.1M)	12.8%
Metro Bank of Dade	(\$4.5M)	(\$1.4M)	10.52%
Mercantile Commercebank	(\$18M)	(\$14.9M)	14.54%
Pacific National Bank	(\$3M)	(\$1.6M)	15.41%
Total Bank	(\$9.9M)	(\$136,000)	10.67%

Source: Federal Financial Institutions Examination Council for the 25 largest banks chartered in South Florida as of June 30. Two of those banks have yet to report.

out," Thomas said. "Many deep-pocketed investors have alligator arms."

Gonzalez said some banks that were in strong condition before the recession haven't examined their books closely because regulators only visit them once every two years. But, regulators could crack down hard on those banks when they get around to them.

LOW PERCENTAGE OF COVERAGE

An example of a low percentage of reserves, Hallandale Beach-based TransCapital Bank held \$2.3 million in reserve for \$32.4 million in noncurrent loans, for a coverage ratio of 7 percent. The bank had strong capital ratios. That may change if it must increase reserves.

The 14 banks that received more capital in the third quarter fall into two categories: already strong banks looking to grow and banks that were bailed out by their investors.

Miami-based BAC Florida Bank has been profitable and can use the extra \$10 million from its foreign parent company to grow. Doral-based JGB Bank already had enough capital and got \$3 million from Jaime Gilinski-Bacal, its chairman and sole shareholder.

However, Miami-based Ocean Bank, Bank of Miami, West Palm Beach-based Grand Bank & Trust of Florida, Miami-based Pacific National Bank, Miami-based Mellon United National Bank and Lauderdale-based Security Bank used the capital infusions to offset significant losses and help meet regulatory requirements. Some of these banks have more problem loans than the undercapitalized banks, but their investors have supported them.

"If you are driving around and you have rich parents, you can afford to wreck your new Corvette," Thomas said. "But, if your parents aren't rich, then you can't."

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