

## CAPITAL SOURCES

Wayne Tompkins

# Half-dozen more banks likely to fail



The worst of the bank failures may be over nationwide, but South Florida could see as many or more failures this year as last, several banking consultants predicted.

A large number of banks continues to struggle with troubled loan portfolios and one banking consultant says at least half a dozen institutions in the region appear to be beyond repair, unable to raise capital and their own investors tapped out.

As was the case last year, the likeliest institutions to fail will be smaller banks with a heavy concentration of commercial real estate loans.

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# BANKS LIMP INTO 2011 WITH MORE FAILURE LIKELY

**S**outh Florida could be looking at as many or more bank failures this year than last year, even as the number of failing banks nationwide begins to wane.

The six South Florida banks that failed in 2010 is a remarkably small number considering the state as a whole led the nation with 29, while the 157 bank failures nationwide were the highest since the savings and loan crisis of 1992.

"Every third bank in Florida is a problem bank which means there still is a big pipeline of potential failures," said **Ken Thomas**, an independent Miami banking analyst. "Much of our banking industry is unfortunately still in the intensive care unit, as evidenced by the facts that we lead the nation in problem banks, bank failures, and enforcement actions."

South Florida banking consultant **Dennis Nason** puts the likely number of South Florida bank failures this year at "at least" half a dozen.

"It's just that there is no solution for them," Nason said. "They cannot raise capital and their shareholders are pretty well tapped out — do they want to send good money after bad? The portfolio won't get any stronger because they must mark their real estate portfolios to market every quarter."

Not all problem banks will fail, however. Many will be recapitalized by investors or others and some of the troubled banks may be merged into other banks, Thomas said.

## EPICENTER OF CRISIS

Florida's location in the epicenter of the banking crisis — nearly one in five U.S. bank failures were in the state — has it limping into 2011 with a number of struggling banks.

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A.M. HOLT



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**KEN THOMAS**  
INDEPENDENT MIAMI BANKING  
ANALYST

## CAPITAL SOURCES: South Florida may see more bank failures this year than last

"I did not anticipate that literally 10 percent of our banking industry would disappear" in 2010," Thomas said. "There are very few industries that lose one-tenth of their players in one year."

Nationwide, 860 banks remain on the FDIC's problem banks list as of Sept. 30, the most since 1993.

"We will still have well over 100 failures next year," said Thomas, whose predictions have been remarkably accurate over the three years of the banking crisis.

Thomas said the list of problem banks has probably exceeded 900 by now.

What has changed over the past 12 months — a trend likely to continue into 2011 — is that banks that failed in 2010 were on average 46 percent smaller than those that failed in 2009, making them more manageable for regulators. Most banks now fail because of commercial loans, not home loans. The problem also is becoming more regionalized: California, Florida, Georgia and Illinois accounted for about half the banks that failed in 2010.

"The concern is over commercial versus residential lending now," Thomas said. "While the residential market peaked in mid-2006, the [commercial real estate] market did not peak until about a year or more later. Household economic problems like foreclosures and unemployment take some time to work their way into the commercial

### BY THE NUMBERS

**900**

Estimated number of U.S. banks on the Federal Deposit Insurance Corp.'s Problem Bank list.

**29**

Florida banks that failed in 2010

**6**

Banks that failed in South Florida in 2010

sphere where people go out and shop and eat less."

He said it will be at least a year or so, "maybe longer, after the residential market recovers that we begin to see signs of recovery in the CRE market."

### FRESH CAPITAL

Thomas said what South Florida banks really need is

fresh capital. That in turn will spawn fresh lending from them, especially within the real estate market.

"The obvious preference is for local capital, or at least from another bank rather than from Wall Street private equity firms, since these absentee bankers apparently focus on commercial

rather than real estate lending to groom a failed bank takeover for a future flip," he said.

The large number of commercial real estate loans coming up for refinancing this year will lead to significant write-offs and reserves required on the part of banks that have high concentrations of those loans, said **Bowman Brown**, chairman of Shutts & Bowen's financial services practice group.

"A lot of them haven't fully realized the projected losses," Brown said. "There will be continuing pressures to write off loans and to reserve for loans that will further adversely impact the capital of South Florida community banks. That's going to continue to make it very difficult for those banks to make loans next year of any kind, unless they successfully raised capital."

Brown foresees increased loan demand in the commercial and industrial area and "with respect to a lot of these CRE properties that are being picked

up by private equity investors, they'll be looking for financing and there will be some very good

loans available to lenders who have the capital to make those loans to facilitate the private equity investments in distressed real estate."

The robust Latin American economies are creating some



Shutts & Bowen's Bowman Brown said broker-dealers and banks focused on the Latin American securities and capital markets are increasing their activities in South Florida.

substantial financial activity for South Florida, and Brown said that broker-dealers and banks focused on the Latin American securities and capital markets are increasing their activities in South Florida.

In Miami's Brickell-downtown area, the inventory of bank-owned and developer-owned condos is drawing down much faster than anybody expected, with a lot of condos being occupied by renters, he said.

"We've got domestic and international private equity interests that are very aggressively going after distressed loans and other real estate owned by banks and bidding those properties and loans up across South Florida," Brown said.

Nason thinks the worst of the year for the banking industry

will be the first half.

"After that, the banks that have come in with fresh capital are going to need to lend to pay for their investments and I think we're going to see a fairly strong second half," he said.

Thomas said the industry entered 2011 still a "buyer's market" for banks, based on the number of institutions with capital ratios near or below well capitalized levels.

"As was the case last year, we have too many of these troubled banks chasing too few private capital dollars," Thomas said.

"Of course, those who get the precious private capital will be the survivors and those who do not will become history."

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