

Earnings improve, noncurrent loans worsen for South Florida banks

BY BRIAN BANDELL

Examining South Florida's banks in the third quarter is a lot like surveying a population wading through a slow economic recovery. There are the haves, which are getting stronger, and the have-nots, which can't seem to shake off their troubles.

The 73 banks chartered in South Florida combined to earn \$9.3 million in the third quarter, improved from a \$121.8 million loss in the second quarter. One of the big swings

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Dennis Nason | Nason and Nason

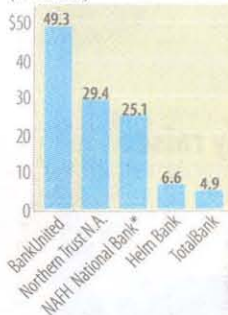
came from the failure of two money-losing banks, which were sold to the newly formed NAFH National Bank.

That Miami-based institution earned \$25.1 million, thanks to a loss-sharing agreement with the Federal Deposit Insurance Corp. Half of the six most-profitable banks benefited from such assistance. In addition, smaller losses for Miami-based Ocean Bank, Fort Lauderdale-based BankAtlantic and Miami-based City National Bank of Florida helped the overall number improve.

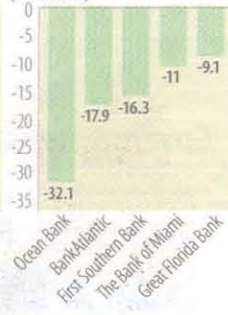
That isn't to say the problems have been left behind. The combined noncurrent loan ratio for South Florida banks jumped to 9.8 percent on Sept. 30 from 8.2 percent on June 30. The amount of noncurrent loans swelled by 18.8 percent over that time to reach \$4.6 billion. Nearly all of that increase came from Miami Lakes-based BankUnited, which is protected by FDIC loss sharing.

However, repossessed real estate was up

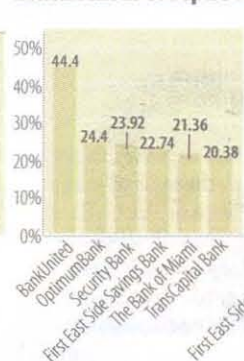
Most profitable banks in the third quarter
(in millions)



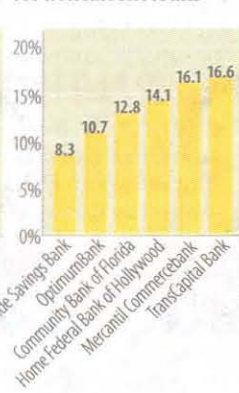
Biggest losses in the third quarter
(in millions)



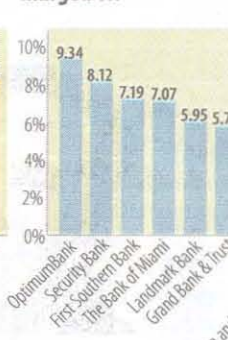
Highest rate of loans noncurrent as of Sept. 30



Lowest reserve coverage for noncurrent loans



Highest rate of loans charged off



Noncurrent loan rate by type



*NAFH National Bank was created on July 17 to acquire the deposits of three failed banks, including MetroBank of Dade County and Turnberry Bank.
Source: Federal Deposit Insurance Corp. for South Florida-chartered banks.

14 percent, and loans past due 30 to 89 days grew 8 percent.

Nine local banks had more than 15 percent of their loans noncurrent, and four of those had loan loss reserves covering less than 20 percent of their noncurrent loans – a sign they may have to take significant losses if their loans need to be written off.

The fact that banks are charging off huge amounts of problem loans and their asset quality is not improving is a bad sign. The commercial real estate market will continue to suffer into next year and put pressure on community banks, said Dennis Nason, CEO of Coral Gables-based Nason and Nason, an executive recruitment and staffing firm for the financial industry. In some cases, banks are taking losses on performing commercial loans because the collateral value has declined below the loan balance, he added.

ANALYST: FINANCING LIMITS BUYER POOL

Miami-based banking analyst and economist Kenneth H. Thomas said he does not expect to see a commercial real estate recovery until 2012. The difficulty in getting financing for commercial real estate purchases has



Thomas

limited the pool of buyers, which has kept prices depressed, he added.

Repeated losses have taken their toll on many banks, including the eight that were below "well capitalized" status as of Sept. 30. All of them need to raise capital to avoid facing trouble with regulators. The Bank of Miami is in the most serious condition because it is "critically undercapitalized" and could be closed if it does not improve soon. Plantation-based OptimumBank was "undercapitalized" and needs to get stronger in the next couple of quarters.

Miami Lakes-based Great Florida Bank, Boca Raton-based Legacy Bank of Florida, Juno Beach-based Anchor Commercial Bank, Bank of Coral Gables, North Lauderdale-based Security Bank and Home Federal Bank of Hollywood were "adequately capitalized." While they are not in immediate danger, regulators could get tough with them if they don't turn things around.

An additional seven banks were less than one percentage point above the "well capitalized" requirement, so they did not have much of a safety net in case of future losses. Six banks met the capital requirements, but

their bad assets were greater than their capital and reserves – a formula called a "Texas ratio" that is commonly used to show banks that are highly vulnerable to loan write-offs. Ocean Bank and Sunrise-based TransCapital Bank were at the top of this list.

With a few exceptions, most troubled banks are having great difficulty raising capital because shareholders worry their investments will be wiped out by future losses, Nason said. More bank failures are inevitable, he added.

Regulators are making things more difficult for banks by raising the requirements for them to be well capitalized, and Thomas said that is scaring away investors. He said regulators should give banks with good business plans and management more time, and not put up obstacles to them raising capital.

"South Florida is probably the hardest hit of any part of the country," Nason said. "Shortly, we won't have that problem because community banks will be wiped out, and anyone who wants a loan will go to Charlotte."

Thomas said the power is shifting toward out-of-state banks, which has hurt local lending. Total loans at South Florida-chartered banks declined 0.5 percent in the third quarter and 3.6 percent over the past 12 months.