

Friday, June 25, 2010

## Local banks find relief in the first quarter

South Florida Business Journal - by [Brian Bandell](#)

After a terrible 2009 for most of South Florida's banks, the first quarter of the new year was a welcome relief for many.

A big drop in charges from bad loans allowed most of the 77 banks chartered in South Florida to finish the quarter in the black. Those local banks combined to earn \$19.7 million in the first quarter, a sharp turnaround from their \$313.9 million combined loss in the fourth quarter, according to Federal Deposit Insurance Corp. data.

Some of that had to do with the failed Premier American Bank being acquired by a new bank of the same name and Sabadell United National Bank cleaning up its balance sheet as its acquisition by Banco Sabadell was completed. Yet, the improvement was nearly across the board.

South Florida had 41 profitable local banks in the first quarter, up from 21 in the fourth quarter. Plus, unprofitable banks such as BankAtlantic and TotalBank narrowed their losses.

Frank Gonzalez, a partner with the Miami-based accounting firm Morrison, Brown, Argiz & Farra, said many local banks booked a large amount of loan-related losses in the fourth quarter so they could contain the losses in 2009 and start 2010 with enough reserves to be profitable. Many community banks have identified their bad loans and are working them out.

"I don't think it's time to raise our hands and declare victory and say this banking mess is behind us," said **Dennis Nason**, CEO of Coral Gables-based financial services recruitment firm **Nason and Nason**. "We're about 60 to 90 days away from hitting the bottom."

The economic recovery that should follow will rescue some local banks, but a handful have too many serious loan problems to survive, he added.

South Florida banks combined for an 8.46 percent noncurrent loan ratio as of March 31, basically flat from Dec. 31. However, repossessed real estate increased 18.9 percent to \$634 million over that period.

The trend of near stability was not evenly spread. There were 23 local banks with more than 10 percent of their loans noncurrent, up from 19 at year-end.

Signaling that the foreclosure plague isn't over: loans between 30 and 89 days past due but still current increased to \$1.07 billion on March 31 from \$1.04 billion on Dec. 31.

Construction/development, multifamily and single-family homes were the worst performing loans, although commercial real estate had the highest increase in noncurrent loans. Gonzalez is concerned that banks with heavy commercial real estate loan portfolios could get hurt this year by increased defaults.

The rate of reserves to cover noncurrent loans remained stable, at 24 percent, for South Florida banks, but it was still less than half the national average. With low reserves leaving banks vulnerable to future loan losses, there were 19 local banks with less than 25 percent of their noncurrent loans reserved for.

Given that trend, plus low capital levels at some banks, the failure of local banks is likely to continue.

Three local banks were in "undercapitalized" status under federal guidelines as of March 31: MetroBank of Dade County, Lantana-based Sterling Bank and Aventura-based Turnberry Bank. They are under major pressure to raise capital soon or face action from the FDIC.

"Those banks with real capital deficiencies are just buying time and probably can't pull out of it," Nason said.

Bank of Miami and Plantation-based OptimumBank also must raise capital. Bank of Miami's parent company is considering another capital injection, but its loan portfolio is in bad shape.

Regulators gave Coral Gables-based Great Florida Bank until August to raise its capital levels to a higher ratio than most banks.

Great Florida Bank is among 10 local banks considered "well capitalized" but have more bad loans and repossessed properties than the combination of their capital and reserves. This is a top concern for regulators as recent public orders, including the one against Great Florida Bank, have sent deadlines to reduce problem assets.

There are six more banks that barely reached "well capitalized" status. They must stay profitable to steer clear of trouble.

With all these banks facing major challenges, it is clear that many mergers and acquisitions are in store for South Florida banks, Gonzalez said.

"We will still see weaker banks drop out and larger banks with solid investors acquiring banks," he said.