

Some banks find failures a chance to expand

By Kat Greene
STAFF WRITER

Georgia has suffered the most bank failures of any state since the beginning of the financial crisis, with 17 closing their doors this year.

But as those banks are snapped up in assisted merger deals and customers shift where they do business, the bank failures may be creating an economy of their own.

A failing bank is something like a zombie, unable to make the loans it needs for income to pull it out from under a heavily weighted balance sheet.

"It's almost a walking dead type of situation where they can't serve their clients," said Charlie Crawford, president and CEO of **Private Bank of Buckhead**. "Nobody likes to see a bank fail, but the

last year or so of a bank's life before a failure is not a very pretty one for the customers or the employees."

His bank reaches out to those employees and customers to recruit them as clients and workers for his own bank, he said.



Crawford
Private Bank
of Buckhead

Often, those customers chose to work with a small community bank — something they're not likely to find after the bank is picked up by a larger organization in a merger.

The failures, then, are an opportunity for other banks to grow their books.

Another opportunity is in the bank portfolios it has to sell for cash toward the end of its life, Crawford noted.

The community bankers know one another, so when a bank can't sustain certain loans on its books as capital runs

low, it turns to other community banks to pass off the business, Crawford said.

"It's sort of natural for them to reach out to us," he said.

In one case, Crawford was able to pick up a loan from a bank that has since failed. Private Bank of Buckhead had originally participated in the loan, holding only part of the risk on its balance sheet.

But when the community bank started to teeter, Private Bank of Buckhead took on the full loan, moving the client's business to Crawford's bank while taking the hefty loan off the troubled bank's sheet.

"The bank's sick, but the client's not," in those cases, Crawford said. "A sick bank is not going to be successful in selling their problem loans at par."

There are 20 Georgia-based banks with a Tier 1 leverage ratio of less than 4 percent, considered a warning sign.

That ratio measures a bank's core capital divided by its assets.

And 73 banks have a Texas ratio, which divides the number of bad loans by capital, of more than 100 percent.

The **Federal Deposit Insurance Corp.** assists in transactions where a healthy bank buys one that's on the verge of failure in a program called loss-share.

Ameris Bancorp. has been active in working with the FDIC on transactions, buying up four troubled Georgia banks in the past year using the loss-share program.

Moultrie-based Ameris (Nasdaq: ABCB) says the FDIC program may be the only way to expand in this market, with troubled bank balance sheets at almost unmanageable levels.

In a loss-share transaction, the FDIC agrees to take on a portion of certain assets of the failed bank, handing the rest over to the acquiring bank. The deals reduce the amount of actual cash the FDIC has to immediately put into the deal, because the assets it can acquire are commercial assets and residential mortgages, on which it can then try to collect.

In a loss-share deal, the FDIC covers 80 percent of the losses on a failed bank, leaving the acquirer only 20 percent of the risk in the portfolio.

And it's an opportunity for banks, like Ameris, to expand their footprints in different markets using established institutions.

Ameris now has branches in Tifton, Stockbridge, Midtown Atlanta and Vidalia, from failed banks it's snapped up since last November.

An FDIC transaction is often somber, almost like a funeral, said Dennis Zember, chief financial officer at Ameris.

The FDIC and acquiring bank show up at the failing bank at closing time on Friday to announce the bank will be shuttered. They walk into the office, tell the employees the bank is closing, then begin transferring everything to the acquiring bank during what is often a long weekend of work.

"They come into that weekend very anxious, worried, not just about themselves but also their customers," Zember said.

But the mood doesn't stay sullen for long, he said. Many of the customer-facing employees will get to keep their jobs in an acquisition, he said, and working for a healthier bank means they can begin selling new products to their clients.

"A lot of them have not been in a position where they can ask the customer for more business. They come in on Monday and it's as though they've moved from defense to the other side of the ball," Zember said.

Ameris works to hire as many of the acquired employees as it can.

Many of the banks they pick up have been struggling long enough to have leaned out the staff on their own, he noted.

But because Ameris already has its own administration in place, many of the back-office and executive staff must be cut.

When it bought Darby Bank & Trust Co. in Vidalia, it acquired 70 back-office employees, Zember said.

They were kept on for six to eight months during the transition and told to keep looking for new work, that Ameris would support them if they wanted to leave early, he said.

Of those, more than 50 found work elsewhere.

"That's something we're pretty proud of," Zember said. "We're pretty employee-oriented."

Reach Greene at KatGreene@bizjournals.com.