

# Banking Insights

Topics of Interest to Community Bankers

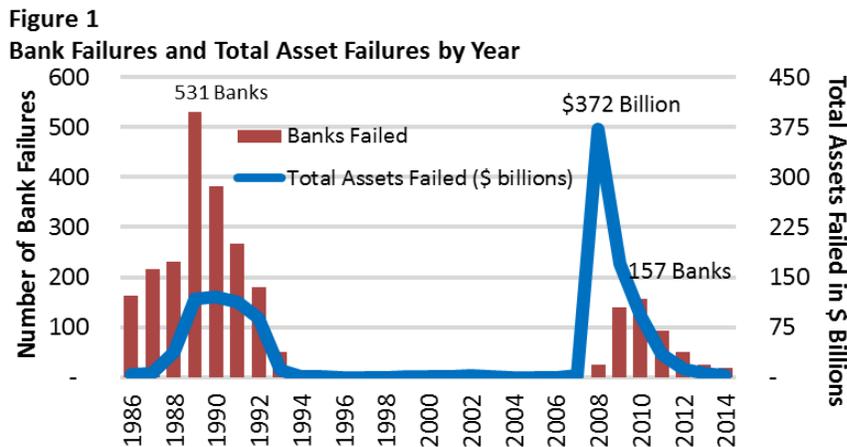
## 2014 Bank Failure Summary

### Summary

Eighteen banks were closed in 2014, marking the lowest number of bank failures since 2007. The failed banks had unusually high levels of nonperforming commercial and industrial loans as well as nonperforming commercial real estate loans compared with a peer group of institutions. Many of the institutions that acquired failed banks in 2014 had purchased other failed banks in recent years. The number of bank failures in 2015 will likely be slightly less than 2014. A full list of banks that failed in 2014 and their acquiring institutions can be found in the appendix.

### Background and Analysis

Regulators closed 18 banks in 2014: three national banks, 10 state nonmember banks, one state member bank and four savings banks. There were six fewer bank failures in 2014 than in 2013 and 33 fewer than in 2012. (See Figure 1.) The Federal Deposit Insurance Corp. estimated an average (unweighted) cost to its Deposit Insurance Fund (DIF) of 15.0 percent of total failed bank assets for 2014. The total cost to the DIF was an estimated \$0.4 billion, while failed bank assets totaled \$3.1 billion. The total assets of failed banks decreased by 46.8 percent compared with the prior year.



Source: FDIC

By state, Illinois had the most failures at five, followed by Oklahoma and Maryland with two failures each. Among Federal Reserve districts, the Chicago District experienced the most failures (five), followed by the Richmond District (four). There were no failures in the St. Louis District, which includes Arkansas and portions of Missouri, Illinois, Indiana, Kentucky, Tennessee and Mississippi.

About two-thirds of 2014’s bank failures occurred in the first half of the year, with three failures each in January, May and June. Multiple bank failures occurred on the same day twice—on Feb. 28 and June 20. The largest institution to fail was The National Republic Bank of Chicago (\$954.4 million in total assets), while the smallest bank failure was Northern Star Bank in Mankato, Minn. (\$18.8 million in total assets).

### Banking Insights

2015, No. 2

April 17, 2015

### Michelle Cissi

Policy Analyst

Michelle.Cissi@stls.frb.org

*Banking Insights* is published periodically by the Banking Supervision and Regulation division of the Federal Reserve Bank of St. Louis and is produced by the Supervisory Policy and Risk Analysis unit. Views expressed are not necessarily those of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

Please direct your comments to [bankinginsights@stls.frb.org](mailto:bankinginsights@stls.frb.org).

## Reasons for Failure

Regulators cited large loan losses associated with real estate lending and the general dissipation of assets as the main reasons for insufficient capital accounts at failed banks in 2014. Among the reasons given for declining asset quality were poor underwriting, inadequate loan tracking systems and insufficient collateral.

When comparing the nonperforming loan ratios of failed banks with those of their peers, a few categories fared considerably worse. For example, in the fourth quarter of 2013, 34.8 percent of commercial and industrial (C&I) loans were nonperforming at the banks that failed in 2014 compared with just 1.5 percent of C&I loans at peer banks. Similarly, 26.5 percent of commercial real estate loans were nonperforming in the fourth quarter of 2013 at the banks that failed in 2014, compared with just 2.3 percent of commercial real estate loans at peer institutions. Net charge-off ratios in 2013 were not as drastically different for the two sets of banks, except in a few instances.

Compared with their peers, most failed banks had at least twice the ratio of nonperforming loans to total loans. Texas ratios indicated far too many impaired assets and insufficient buffers to cover potential losses. The most recent call reports for these institutions before failure showed that many of them had net interest margins similar to their peers in the same time period, while none of them had negative net interest margins (The Bank of Union in El Reno, Okla., did have a net interest margin near zero.) However, these institutions spent a disproportionate amount of money on noninterest expenses such as salaries, employee benefits, buildings and fixed assets, causing their efficiency ratios to deteriorate.

## Acquiring Institutions

Institutions that acquired failed banks in 2014 tended to be in the same geographic area as the failed banks. Thirteen acquiring institutions were state nonmember banks, two were national banks, and two were thrifts. (One institution acquired two failed banks.) Acquiring institutions were headquartered in all Fed districts except Boston, New York and Cleveland. Acquiring banks were much larger than failed banks (at least double the size in assets) in every instance but one. About a third of acquiring institutions had purchased at least one other failed bank in previous years.

Acquirers were in good financial standing before their acquisitions, and acquisitions boosted some of their performance ratios in most cases. Returns on average assets (ROA) increased for the majority of acquiring institutions between the Call Report immediately preceding the acquisition and the Call Report in which the acquisition took place (excluding three failures that occurred in the fourth quarter of 2014). Return on average equity declined after acquisition only at institutions where ROA also fell. Acquiring institutions typically had stable capital buffers before and after acquisitions occurred. About half of all acquiring institutions had higher tier 1 leverage ratios than peer averages after acquisition, while the other half had tier 1 leverage ratios slightly lower than the peer average.

## Outlook for 2015

If the recent trend of declining bank failures continues in 2015, then there will be another small drop-off in failures from the 18 failures observed in 2014, after which bank failures are anticipated to level out to historically low numbers for the next several years. As has been the case for the past several years, we expect that banks that fail in 2015 will exhibit poor credit quality and insufficient capital.

**Appendix:**

| <b>Name</b>                            | <b>Total Assets (\$000)</b> | <b>City</b>     | <b>State</b> | <b>Acquiring Institution</b>        | <b>City</b>          | <b>State</b> | <b>Closing Date</b> |
|--|-----------------------------|-----------------|--------------|-------------------------------------|----------------------|--------------|---------------------|
| DuPage National Bank                   | 53,524                      | West Chicago    | IL           | Republic Bank of Chicago            | Oak Brook            | IL           | 17-Jan-14           |
| The Bank of Union                      | 331,357                     | El Reno         | OK           | BancFirst                           | Oklahoma City        | OK           | 24-Jan-14           |
| Syringa Bank                           | 153,361                     | Boise           | ID           | Sunwest Bank                        | Irvine               | CA           | 31-Jan-14           |
| Millennium Bank, National Association  | 130,305                     | Sterling        | VA           | WashingtonFirst Bank                | Reston               | VA           | 28-Feb-14           |
| Vantage Point Bank                     | 63,453                      | Horsham         | PA           | First Choice Bank                   | Mercerville          | NJ           | 28-Feb-14           |
| Allendale County Bank                  | 51,459                      | Fairfax         | SC           | Palmetto State Bank                 | Hampton              | SC           | 25-Apr-14           |
| Aztec America Bank                     | 66,309                      | Berwyn          | IL           | Republic Bank of Chicago            | Oak Brook            | IL           | 16-May-14           |
| Columbia Savings Bank                  | 36,484                      | Cincinnati      | OH           | United Fidelity Bank, fsb           | Evansville           | IN           | 23-May-14           |
| Slavie Federal Savings Bank            | 140,100                     | Bel Air         | MD           | Bay Bank, FSB                       | Lutherville Timonium | MD           | 30-May-14           |
| Valley Bank                            | 456,400                     | Moline          | IL           | Great Southern Bank                 | Reeds Spring         | MO           | 20-Jun-14           |
| Valley Bank                            | 81,800                      | Fort Lauderdale | FL           | Landmark Bank, National Association | Fort Lauderdale      | FL           | 20-Jun-14           |
| The Freedom State Bank                 | 22,800                      | Freedom         | OK           | Alva State Bank & Trust Company     | Alva                 | OK           | 27-Jun-14           |
| Eastside Commercial Bank               | 169,000                     | Conyers         | GA           | Community & Southern Bank           | Atlanta              | GA           | 18-Jul-14           |
| GreenChoice Bank, FSB                  | 72,900                      | Chicago         | IL           | Providence Bank, LLC                | South Holland        | IL           | 25-Jul-14           |
| NBRS Financial                         | 188,200                     | Rising Sun      | MD           | Howard Bank                         | Ellicott City        | MD           | 17-Oct-14           |
| The National Republic Bank of Chicago  | 954,400                     | Chicago         | IL           | State Bank of Texas                 | Dallas               | TX           | 24-Oct-14           |
| Frontier Bank, FSB D/B/A El Paseo Bank | 86,400                      | Palm Desert     | CA           | Bank of Southern California, N.A.   | San Diego            | CA           | 7-Nov-14            |
| Northern Star Bank                     | 18,800                      | Mankato         | MN           | BankVista                           | Sartell              | MN           | 19-Dec-14           |