March 22, 2010

Hello CFG clients . . . Brian here. For this week's email, I figured it was time to give you an update on the year-to-date bank closures. And this past Friday, the FDIC didn't disappoint as they shuttered 7 more banks . . . bringing the year-to-date number to **37**! These 7-banks alone have hit the FDIC's deposit insurance fund (DIF) a combined $1.3 billion. And the year-to-date hit to the DIF is a whopping $6.2 billion.

Now, keep in mind that we're only 80 days into the new-year . . . and as the Associated Press article below reveals, regulators are stating that "*the pace of bank seizures this year is likely to accelerate in coming months*". This statement, coupled with the article I outlined a few weeks ago about a new FDIC office being established just outside of Chicago (**here**), recent news surrounding the fate of a Grand Rapids based community bank (**here**) and the lack thus far of Michigan bank closures gives me reason to believe we'll soon be recognizing the bank names in these future articles.

Regulators shut 7 banks in 5 states; 37 in 2010

Regulators shut banks in Alabama, Georgia, Minnesota, Ohio and Utah; makes 37 this year

Marcy Gordon, Associated Press Business Writer, On Friday March 19, 2010, 8:30 pm EDT

WASHINGTON (AP) -- Regulators on Friday shut down seven banks in five states, bringing to 37 the number of bank failures in the U.S. so far this year.

The closings follow the 140 that succumbed in 2009 to mounting loan defaults and the recession.

The Federal Deposit Insurance Corp. took over First Lowndes Bank, in Fort Deposit, Ala.; Appalachian Community Bank in Ellijay, Ga.; Bank of Hiawassee, in Hiawassee, Ga.; and Century Security Bank in Duluth, Ga.

The agency also closed down State Bank of Aurora, in Aurora, Minn.; Advanta Bank Corp., based in Draper, Utah; and American National Bank of Parma, Ohio.

The FDIC was unable to find a buyer for Advanta Bank, which had $1.6 billion in assets and $1.5 billion in deposits. The regulatory agency approved the payout of the bank's insured deposits and it said checks to depositors for their insured funds will be mailed on Monday.

The failure of Advanta Bank is expected to cost the federal deposit insurance fund $635.6 million.

For the other banks:

-- First Citizens Bank of Luverne, Ala., agreed to assume the deposits and assets of First Lowndes Bank. First Lowndes had $137.2 million in assets and $131.1 million in deposits. The FDIC expects that the cost to its insurance fund will be $38.3 million.

-- Community & Southern Bank of Carrollton, Ga., agreed to assume the deposits and assets of Appalachian Community Bank. The bank had $1 billion in assets and about $917.6 million in deposits. The cost to the insurance fund is expected to be $419.3 million.

-- Citizens South Bank of Gastonia, N.C., will assume the deposits and assets of Bank of Hiawassee. Bank of Hiawassee had about $377.8 million in assets and $339.6 million in deposits. The failure is expected to cost the insurance fund $137.7 million.

-- Bank of Upson, based in Thomaston, Ga., agreed to assume the assets and deposits of Century Security Bank, which had $96.5 million in assets and $94 million in deposits. It is expected to cost the insurance fund $29.9 million.

-- Northern State Bank in Ashland, Wisc., agreed to assume the deposits and assets of State Bank of Aurora. The bank had about $28.2 million in assets and $27.8 million in deposits. The FDIC expects the move will cost the insurance fund $4.2 million.

-- National Bank and Trust Co., based in Wilmington, Ohio, agreed to assume the assets and deposits of American National Bank, which had $70.3 million in assets and $66.8 million in deposits. The cost to the insurance fund is expected to total $17.1 million.

The pace of bank seizures this year is likely to accelerate in coming months, regulators have said, as losses mount on loans made for commercial property and development.

The bank failures -- the 140 last year was the highest annual tally since the height of the savings and loan crisis in 1992 -- have sapped billions of dollars out of the deposit insurance fund. It fell into the red last year, hitting a $20.9 billion deficit as of Dec. 31.

Depositors' money -- insured up to $250,000 per account -- is not at risk, with the FDIC backed by the government. Apart from the fund, the FDIC has about $66 billion in cash and securities available in reserve to cover losses at failed banks.

Banks, meanwhile, have tightened their lending standards. U.S. bank lending last year posted its steepest drop since World War II, with the volume of loans falling $587.3 billion, or 7.5 percent, from 2008, the FDIC reported recently.

New Senate legislation was unveiled this week that is a blueprint for the biggest overhaul of financial regulations since the 1930s, giving the government unprecedented powers to split up large complex firms if they pose a threat to the nation's financial system. It would also create an independent consumer watchdog.

The bill crafted by Sen. Banking Committee Chairman Christopher Dodd, D-Conn., would force big, complex financial firms to pay insurance premiums in advance for a $50 billion fund to cover possible failures in their ranks. The fees levied up front would give the FDIC an immediate source of funds to resolve big failed institutions, so that taxpayer money wouldn't be used.

The costs of resolving smaller banks that fail would continue to be covered by the FDIC.

The FDIC expects the cost of resolving failed banks to grow to about $100 billion over the next four years.

Have a nice week,

Valerie Holcomb, Shari Hooper & Brian Harris
Cascade Financial Group

607 Cascade West Parkway
Grand Rapids, MI 49546
(616) 575-2020
(616) 957-4142 Fax: