BANKERS' BANK UPDATE

by Steve Brown

On Friday, Independent Bankers' Bank ("IBB") of Springfield, Ill., was placed into receivership under the FDIC. The FDIC placed IBB into a bridge bank.

This raises a question - do bankers' banks and correspondent banks have a flawed business model? The answer is an unequivocal "no", but knowing why is an interesting exercise. To answer the question, first it is important to understand that bankers' banks and correspondent banks have 2 very different business models when viewed from 80k feet. In general, a bankers' bank is in the business to downstream products and services to community banks, where scale and size are important. Alternatively, for the most part, a correspondent bank is in the business of using up excess capacity in their operations. While seemingly similar, our point here is that a bankers' bank needs your business, while a correspondent bank would like your business. This orientation produces very different customer service results and motivations.

Understanding this motivation is important, as it is central to the question of whether a bankers' bank can remain profitable and stable to serve community banks. The business model of serving community banks is a successful one, as a bankers' banks core competency is one of aggregation and distribution. These business models are very much alive and prevalent in all walks of business from Federal Express to AAA Auto Club. In fact, if you look at the core earnings of most bankers' banks, you will find them all profitable and stable.

If it is not the business model, then what is the problem? The answer, like the rest of the industry, is credit exposure. Bankers' banks have made their business off the hardest hit sector in the US economy. While Silverton had exposure to land and holding company loans, IBB Illinois had exposure to trust preferred securities within their investment portfolio. While in retrospect all banks could probably use more diversification, opportunities to disseminate risk can be somewhat limited for a specialty niche like a bankers' bank. Because of this limited ability to diversify, one key mitigating factor is a higher level of capital.

Since founding 12 years ago, Pacific Coast Bankers' Bank (PCBB) has focused exclusively on developing products and services that enable community bankers to better serve the needs of their clients and compete more effectively against larger financial institutions. While we have exposure to the community banking industry, core profitability is strong and stable. In fact, our Total Risk Based Capital Ratio is 21.51% and we are holding cash and highly liquid securities that compose 60% of our assets. We are also committed to strong risk management.

As we look toward a new decade of success, PCBB has the capital strength, experienced management team and resources in place to create new opportunities for bankers. We will continue to improve our lending, cash management, capital markets and consulting services in order further benefit the industry.

As with you, we don't like losing competitors, because they help make us all better. The good news is that the FDIC is operating IBB Illinois while it actively seeks a buyer and all operations are business as usual at the bridge bank for community bank customers of IBB. The FDIC has stated they will fully support all client banks and ensure there is absolutely no disruption in service, so community bankers with ties to IBB Illinois can feel secure in the knowledge they have plenty of time to figure out what to do without customer interruption.

In turbulent times like these, PCBB remains well-positioned to continue doing what we do best - serving the needs of community bankers across the country. We want to take this opportunity to express our sadness, as we also reinforce our commitment to the industry and you as our clients.

BANK NEWS

7 Banks Closed (140 YTD)

In addition to IBB (see lead article), regulators closed: [1] Rockbridge Commercial Bank ($294mm, GA) without assumption. [2] Peoples First Community Bank ($1.8B, FL). Hancock Bank ($3.6B, MS) will assume all deposits for a 1% premium and purchase $1.6B in assets ($1.4B under a loss-share). [3] Citizens State Bank ($169mm, MI). The FDIC has set up the Deposit Insurance National Bank of New Baltimore (DINB) to take over insured deposits for 45 days as customers transfer funds to other institutions, with The Huntington National Bank ($42B, OH) managing operations for DINB. [4] New South Federal Savings Bank ($1.5B, AL). Beal Bank ($2.5B, TX) will acquire all deposits for no premium and essentially all assets ($1.2B under a loss-share). [5] Imperial Capital Bank ($4B, CA) and placed it into receivership with City National Bank ($18B, CA) to assume all of the deposits and $3.3B in assets ($2.5B under a loss share). [6] First Federal Bank of California ($6.1B, CA). OneWest Bank FSB ($18.7B, CA) will assume all of the deposits of First Federal without premium and will assume $5.3B of assets under a loss share agreement.