
THE NIGHTMARE OF INDUSTRY FAILURES

by [Steve Brown](#)

Research finds 50% of people have occasional nightmares and between 2% and 8% of adults are plagued by them. While the subjects of nightmares vary, there are some common ones that many people have including not running fast enough to escape danger or falling from some high place. Reasons vary, but for adults, nightmares are usually more common when you have a late night meal (increases metabolism and brain activity); are on medication (interact with the brain); have sleep apnea or restless leg syndrome; have anxiety or depression; or have gone through a traumatic event. The good news is that for those nightmares that aren't caused by medications, behavioral changes have been proven effective to suppress the bad dreams for 70% of adults. Simple things, such as exercising, yoga, meditation, avoiding caffeine and keeping a regular schedule have been found to be very effective ways to avoid having a nightmare. Speaking of nightmares, as the credit crisis has ground on over the years; we have found ourselves monitoring email and the FDIC web site for blasts about bank failures every Friday. Sometimes failures are announced and sometimes they are not, but we know that probably without exception, the management teams of these banks worked diligently until the end to try and save their institutions. We are never happy to receive notification of a failure, but we also must review the details in order to help other banks avoid repeating the mistakes of the past. To begin, we analyzed the entire FDIC list of 473 institutions that have failed since Oct. 1, 2000. We found that over this 12Y period, institutions were closed in a total of 44 states. Failures ranged from as low as 1 per state (9 states) to a high of 82 in GA. The top 4 states had a total of 241 failures as a group and represented 51% of the total during this period. By state, the number of failures for each one was GA (82), FL (65), IL (54) and CA (40). Other states that had double-digit failures over this period of time included WA (17), MI (14), AZ (13), MO (12), NV (11) and TX (10). Looking further into the data, we find some banks have surfaced as very active buyers of these failed institutions. Those with the most acquisitions during this period include U.S. Bank MN (13 acquisitions); State Bank and Trust Company GA (12); Ameris Bank GA (10); Bank of the Ozarks AR (7); and Stearns Bank MN (7). Perhaps even more interesting, the FDIC was not able to find an acquirer for 29 institutions, or about 6% of the overall total of those that failed. Finally, we found institutions that failed most often strangely started with the letter "F" (67 institutions), followed by the letters "C" (62); "S" (48); "B" (40); "P" (32). Meanwhile, institutions that had the fewest number of failures began with the letters "J" or "K" at 2 each. Finally, if you are worried about the future of the industry and want to be sure your bank is protected, consider changing its name to begin with the letters "Q", "X", "Y", or "Z", all of which registered no failures over this period. As for us, we expect to continue to have the occasional nightmare, as we lose sleep over the substantial impact of Dodd Frank on community banks and worry about the group of banks nationwide that remain under strain.

BANK NEWS

Closed (32)

Regulators closed Montgomery Bank & Trust (\$174mm, GA) and sold it to Ameris Bank (\$3.1B, GA). Ameris gets 2 branches and all deposits, but only took on \$12.4mm in assets. Montgomery had been embroiled in a reported multimillion dollar fraud, perpetrated by a board member who embezzled \$17mm from the bank, prepared false statements and may have fled the country.

M&A

Lender Processing Services (LPS) has announced it will purchase LendingSpace, a software firm provider of loan origination software.

Tax Rates

The President will call for a 1Y extension on the Bush tax cuts for households making less than \$250k per year.

Fed Moves

While Fed officials were on the wires over the weekend saying that "the economy isn't weakening fast enough to warrant a prompt injection of liquidity," we point out that the market now puts the odds of QE3 at 70%. Of note, one mechanism that is growing in popularity is the potential cutting of the bank reserve rate.

TAG Extension

Responding to a request by Congress on the performance of TAG, the acting FDIC Chairman said that it is difficult to "anticipate the consequences" of the expiration of TAG "because of the uncertain economic climate."

Fake CU

GA regulators ordered "Georgia Entertainer's Credit Union" to cease operations, as it was not a state chartered credit union as it claimed.

Earnings and Growth

As 2Q earnings season kicks off later this week, initial data indicates that earnings increased again due to a reduction in ALLL and fees from mortgage origination. It appears that C&I loan growth has slowed to an annual rate of 11.5%, the slowest in a year. Overall, we expect loan growth up about 2% and deposit growth around 4%.

Europe

While Spain & Greece have the world's attention, we remain more concerned over Italy. It looks like Italian GDP is going to be a negative 2% for 2Q, or far worse than expected.

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