

Banks trying to cope with rise in bad loans

2.31% of loans nationwide non-current, highest level since 1993

By Becky Yerak, *Tribune* reporter
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First National Bank of Brookfield, like many banks nationally, was being hurt by bad loans. Now it can do something about a big chunk of its bad debt.

On Friday the \$268.7 million-asset bank took control of a foreclosed 35-acre commercial real estate parcel in Naperville that accounted for half of its \$29 million in real estate loans at least 90 days past due.

Brookfield will try to sell the land at 95th Street and Illinois Highway 59 to recoup a significant amount of the \$15 million loan gone bad.

"Today is a big day," Brookfield Chief Executive Jan Schultz said Friday. "Until I had title to it, I couldn't move it, I couldn't try to sell it, so we're excited because there has been significant interest in the property."

As of Sept. 30, 2.31 percent of loans nationwide were non-current, the highest level for insured institutions since the third quarter of 1993, according to the Federal Deposit Insurance Corp. That's up from 2.04 percent in the second quarter and 1.08 percent in the same period in 2007.

Most depositors have little to fear, however, as the FDIC has bumped institutions' coverage from \$100,000 to \$250,000 a depositor through Dec. 31.

In the quarter ended Sept. 30, Brookfield had the fifth-highest loan-delinquency rate among Chicago-area banks. It also had the area's fifth-highest property-related Texas ratio, which tallies up a bank's past-due loans and bank-owned real estate and compares them with the levels of a bank's core capital, typically shareholders' equity, and the money set aside for potential loan losses.

"The Texas ratio puts a bank's loan problems in the context of its capital levels, so it's a fairly good predictor" of difficulties, said Justin Barr, president of Loan Workout Advisers LLC in Northbrook.

So banks need to lower their levels of souring loans, sell the real estate they have repossessed, raise capital or set aside more reserves for potential loan losses.

Brookfield's Schultz acknowledged that banks likely face the same challenges as any other property peddler these

days, namely buyers holding out for lower prices. But "the bank-owned properties are selling because the banks are willing to take discounts that the average homeowner can't," he said.

Schultz takes issue with one aspect of the Texas ratio: It doesn't factor in the collateral in a secured loan.

"You can't just say it's going to result in a total loss," he said, noting that a bank is likely to recoup at least part of a secured loan gone bad when it sells the property.

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Community Bank of Lemont tops a list of local institutions with the highest percentage of non-current loans, or those that are more than 90 days past due or that aren't generating any interest for the bank. The \$95.8 million-asset bank raised \$3 million in capital in September but also has the area's highest Texas ratio.

"We're diligently working on curing those credit problems," CEO Richard Meade said. He said Lemont meets the regulatory standard for "well capitalized."

The 7-year-old bank's past-due loans are secured by real estate, "which has traditionally been good collateral," he said. But "in the declining real estate market such as the one we're experiencing, that collateral value gets stressed."

The bank with the third-highest Texas ratio was Mutual Bank in Harvey. The \$1.69 billion-asset bank financed the purchase by the wife of political fundraiser Tony Rezko of a side lot in a deal that enabled Barack Obama to buy his dream house.

"Since June we've infused about \$40 million in additional capital" into the bank, said David Laffee, Mutual chief financial officer. "That'll help improve our Texas ratio."

Most of the capital came from the Veluchamy family, which bought the bank in 1998.

At Platinum Community Bank in Rolling Meadows, 21.5 percent of loans were delinquent as of Sept. 30. And, at 151.4 percent, Platinum's real estate-focused Texas ratio was the market's second highest.

But the bank got good news on Oct. 3.

That's the day that Platinum, which had \$12.6 million in delinquent real estate loans as of Sept. 30, closed a deal to sell \$10.7 million in non-performing residential mortgages to an unnamed investor, according to a regulatory filing.

The loan sale significantly reduced the bank's delinquency and Texas ratios in the fourth quarter, said Michael Linsner, Platinum president.

Heritage Community Bank, which cites "the severe real estate downturn" for its high Texas ratio, said it's "in active discussions with equity investors regarding possible transactions" to raise capital

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