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New year, same problems for Capitol Bancorp

By Andrew Wolcott and Lindsey White and Tahir Ali

Shortly before ringing in 2013, [Capitol Bancorp Ltd.](#) announced plans to sell one of its more troubled units. Observers say the sale, while a positive step, is unlikely to make a significant dent in the company's broader struggle.

On Dec. 28, 2012, Capitol Bancorp [said](#) it had signed a letter of intent to sell Albuquerque, N.M.-based [Sunrise Bank of Albuquerque](#) to unidentified investors.

John Donnelly, a managing director at Donnelly Penman & Partners, said the sale is good for Capitol Bancorp, but unlikely to move the needle for the company. "I think that's a small brick in the side of the building," Donnelly told SNL.

Wesley Brown, a managing director at St. Charles Capital LLC, made a similar point. "The bank is only \$51 million in assets relative to \$1.7 billion of assets for Capitol Bancorp," he noted, adding that Sunrise Bank of Albuquerque's nonperforming assets totaled more than 15% of assets at Sept. 30, 2012.

Still, Brown called the sale "a wonderful opportunity" for Lansing, Mich.-based Capitol Bancorp to remove a problem from its balance sheet. "It provides the regulators with one more reason not to close Capitol Bancorp," Brown said. "I think [Capitol Bancorp]'s strategy is to keep coming up with improvements and simplifications to the franchise to cause the regulators to postpone an eventual takeover."

Capitol Bancorp Ltd.'s banking subsidiaries

Subsidiary	City, state	Total assets (\$M)	Tier 1 leverage ratio (%)	Significantly or critically under-capitalized?
Indiana Community Bank	Goshen, IN	103.4	7.96	No
Capitol National Bank	Lansing, MI	160.9	6.53	No
Bank of Maumee	Maumee, OH	35.4	4.25	No
Michigan Commerce Bank	Ann Arbor, MI	692.9	2.49	Yes
Sunrise Bank of Albuquerque	Albuquerque, NM	51.5	2.13	Yes
1st Commerce Bank	North Las Vegas, NV	23.3	2.03	Yes
Bank of Las Vegas	Henderson, NV	273.6	2.01	Yes
Sunrise Bank	Valdosta, GA	70.8	2.00	Yes
Central Arizona Bank*	Scottsdale, AZ	37.0	2.00	Yes
Pisgah Community Bank*	Asheville, NC	27.1	2.00	Yes
Sunrise Bank of Arizona*	Phoenix, AZ	237.5	2.00	Yes

As of Jan. 3, 2013

Includes only those subsidiaries for which capital adequacy ratios were listed in Capitol Bancorp Ltd.'s Form 10-Q for the quarter ended Sept. 30, 2012.

Regulatory capital definitions were defined in Capitol Bancorp's Form 10-Q as:

Well-capitalized – Total risk-based capital ratio must be 10% or more, Tier 1 risk-based capital ratio must be 6% or more, Tier 1 leverage ratio must be 5% or more, and the bank must not be subject to formal regulatory enforcement action requiring non-standard capital ratios.

Adequately capitalized – Does not meet the criteria for "well-capitalized" but has total risk-based capital ratio of 8% or more, Tier 1 risk-based capital ratio of 4% or more, and Tier 1 leverage ratio of 4% or more.

Undercapitalized – Does not meet the criteria for "adequately-capitalized" but has total risk-based capital ratio of 6% or more, Tier 1 risk-based capital ratio of 3% or more, and Tier 1 leverage ratio of 3% or more.

Significantly undercapitalized – Does not meet the criteria for "undercapitalized" but has Tier 1 leverage ratio of 2% or more.

Critically undercapitalized – Institutions with a Tier 1 leverage ratio below 2% before rounding to the nearest one-hundredth.

* These three subsidiaries posted a Tier 1 leverage ratio below 2.00% before rounding to the nearest one-hundredth.

Source: SNL Financial, Capitol Bancorp Ltd.'s Form 10-Q for the quarter ended Sept. 30, 2012.



The sale comes at an important time for Sunrise Bank of Albuquerque. As of Sept. 30, 2012, the bank was one of several Capitol Bancorp subsidiaries that were either significantly or critically undercapitalized. That same month, New Mexico state regulators [warned](#) that they might take control of Sunrise Bank of Albuquerque should certain problems remain as of Dec. 20, 2012.

The Sunrise Bank of Albuquerque transaction is set to complete in 2013, subject to regulatory approval. When contacted by SNL, Cynthia Richards, director of the Financial Institutions Division of the New Mexico Regulation and Licensing Department, declined to comment on whether the bank has addressed the state regulator's concerns.

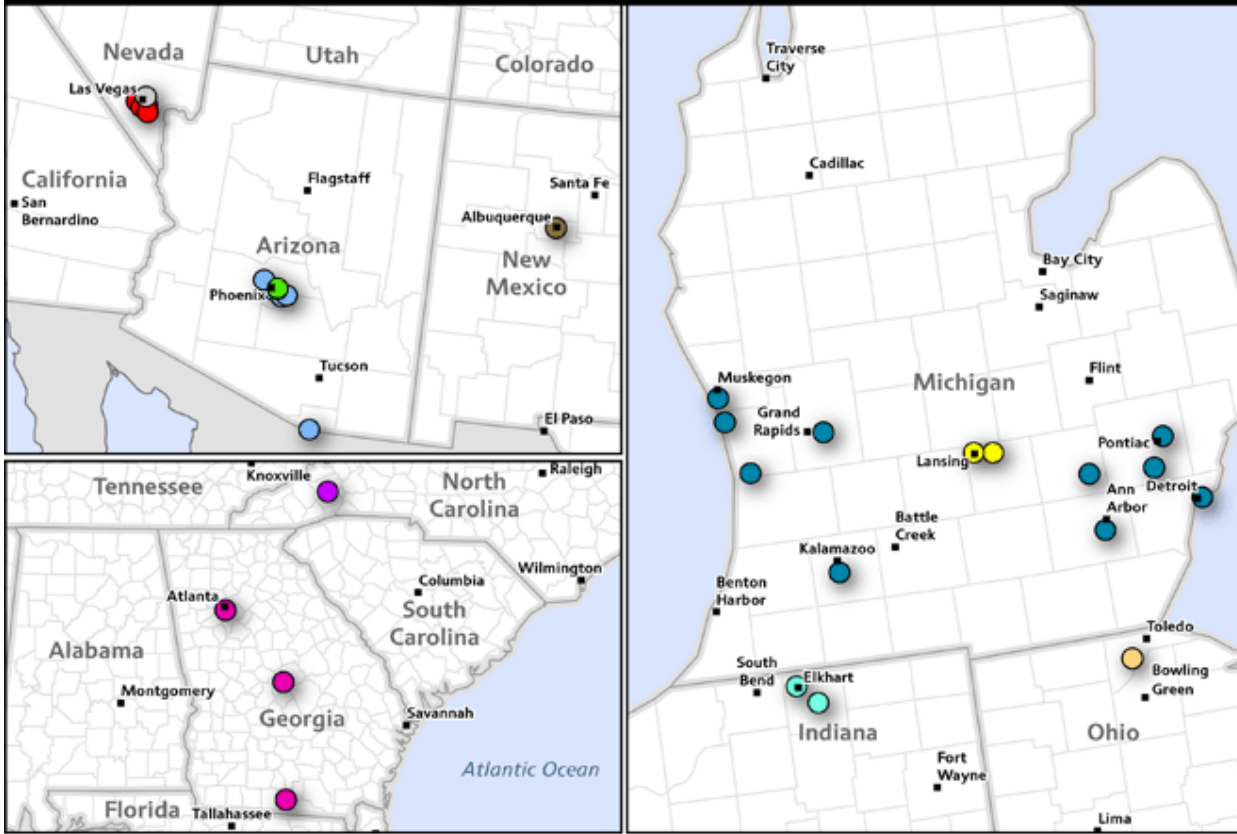
Donnelly suggested that the patience regulators have shown in dealing with Capital Bancorp and its subsidiaries is a wise strategy. "To most of us on the outside, there's no clear buyer for this franchise, even through the FDIC. Particularly now that a number of the banks have been divested, it is truly a far-flung enterprise at this point," he said. "The component parts are so small in each market, it's just not clear to me who might take the enterprise on."

Capitol Bancorp [sold](#) its stake in Bend, Ore.-based [High Desert Bank](#) in November 2012, but some of the company's other capital-raising efforts have hit roadblocks. In December 2012, the company [reported](#) that entities affiliated with [Valstone Partners LLC](#) had [terminated](#) agreements to acquire \$50 million in common and preferred stock in the reorganized company and \$207 million in nonperforming loans.

Donnelly called the loss of the Valstone commitment "a big blow" to Capitol Bancorp. He also drew attention to the departure of the company's chief of capital markets, Michael Moran, in November 2012, along with the [resignation](#) of the company's interim CFO, Nicholas Hahn, in December 2012.

"These are the kind of signs that the ship is starting to take on some water," Donnelly said. "I think the situation is still extremely dire."

Capitol Bancorp Ltd. branches



- 1st Commerce Bank (1)
- Bank of Las Vegas (4)
- Bank of Maumee (1)
- Capitol National Bank (2)
- Central Arizona Bank (1)
- Indiana Community Bank (2)
- Michigan Commerce Bank (10)
- Pisgah Community Bank (1)
- Sunrise Bank (3)
- Sunrise Bank of Albuquerque (1)
- Sunrise Bank of Arizona (6)

As of Jan. 3, 2013
 Capitol Bancorp Ltd. branches are pro forma for openings/closings and completed mergers and acquisitions since June 30, 2012.
 Includes all those subsidiaries for which capital adequacy ratios were listed in Capitol Bancorp Ltd.'s Form 10-Q for the quarter ended Sept. 30, 2012.
 Excludes High Desert Bank, which was acquired by an investor group on Nov. 19, 2012.
 Source: SNL Financial
 Map credit: Whit Varner

