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Regulators patient as Capitol Bancorp divests

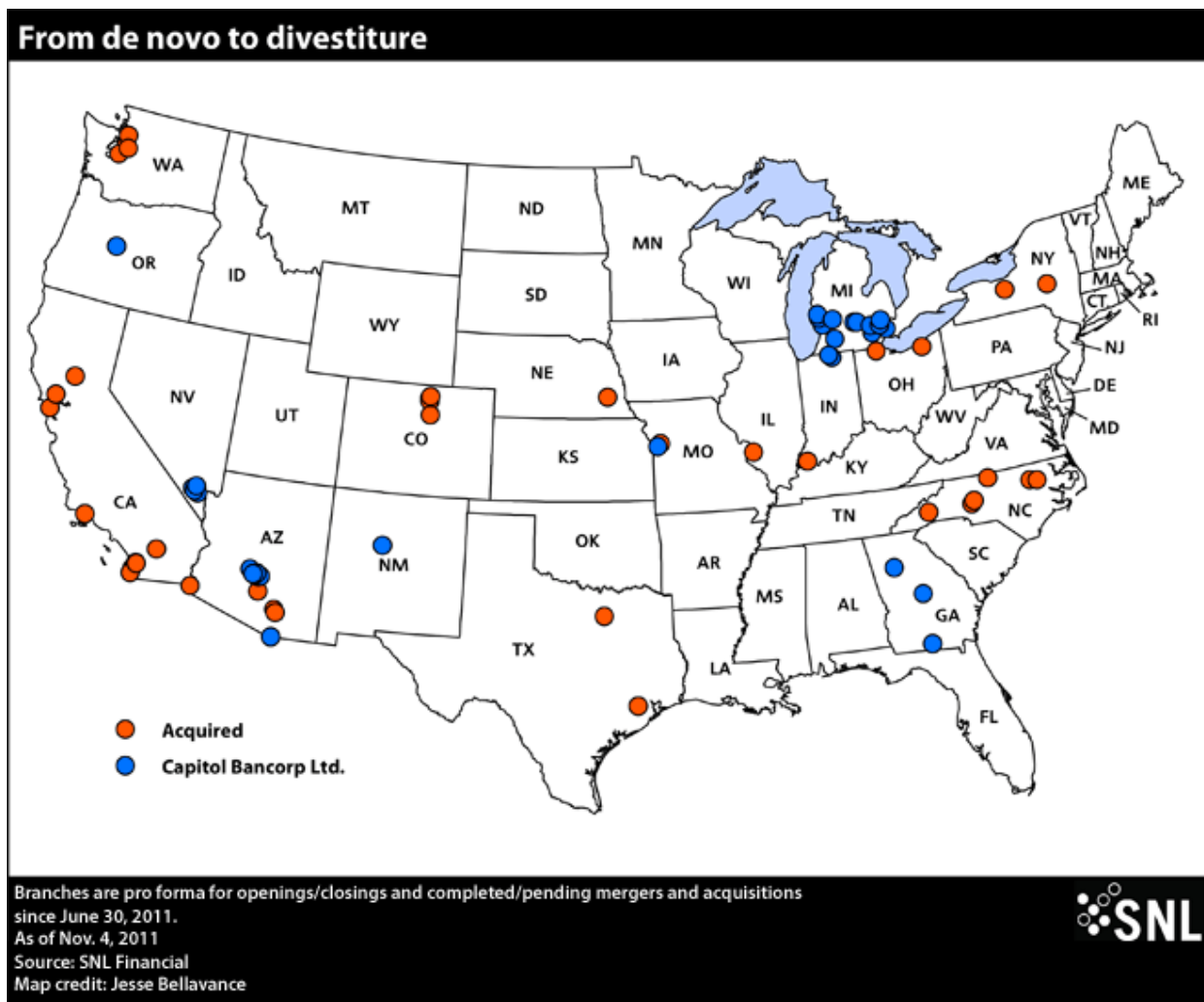
By Lindsey White and Patrick Sims

Industry observers agree that regulators are exercising great patience as [Capitol Bancorp Ltd.](#) continues to sell off its parts — and the company's complexity may be the cause of this forbearance.

Michael Moran, Capitol Bancorp's director of affiliate divestitures, told SNL that the company has sold more than 20 banks so far and has several deals in the works. The company has exited a number of states, including Illinois, Nebraska, New York, California, Texas and Washington. It is in the process of exiting Colorado, North Carolina and Ohio, he said.

Most recently, SNL learned that new holding company First Carolina Financial Services [agreed to acquire](#) majority stakes in [two](#) of Capitol Bancorp's units in North Carolina: [First Carolina State Bank](#) and [Pisgah Community Bank](#).

Moran said the purchaser is going through the normal process of getting its equity capital in place and obtaining regulatory approvals. The company hopes to complete the deal by the end of the year, he said.



Current subsidiaries of Capitol Bancorp Ltd.			Most recent financials ²			Most recent enforcement action (EA)	Date EA Issued
Company	City, state	Pending acquirer	Total assets (\$M)	Tier 1 ratio (%)	Leverage ratio (%)		
Michigan Commerce Bank	Ann Arbor, MI	NA	822.5	2.80	2.14	Prompt Corrective Action	02/22/11
Bank of Las Vegas	Las Vegas, NV	NA	337.0	2.61	2.01	Prompt Corrective Action	02/22/11
Sunrise Bank of Arizona	Phoenix, AZ	NA	325.6	2.62	2.02	Prompt Corrective Action	02/22/11
Capitol National Bank	Lansing, MI	NA	153.6	8.48	6.77	Cease and Desist	12/22/09
Indiana Community Bank	Goshen, IN	NA	124.1	9.32	6.79	Cease and Desist	02/24/10
First Carolina State Bank	Rocky Mount, NC	First Carolina Finl. Svcs Inc.	90.3	3.00	2.01	End of Previous Action ³	09/21/10
Sunrise Bank	Valdosta, GA	NA	85.6	2.89	2.01	Cease and Desist	02/18/10
Bank of Michigan	Farmington Hills, MI	TBD ¹	83.4	11.05	8.36	NA	NA
Sunrise Bk of Albuquerque	Albuquerque, NM	NA	61.0	2.72	2.07	Cease and Desist	02/17/10
Summit Bk of Kansas City	Lee's Summit, MO	NA	52.6	12.75	9.44	NA	NA
Mountain View Bk of Commerce	Westminster, CO	NBC Bancshares LLC	52.2	18.52	13.57	NA	NA
Central Arizona Bank	Scottsdale, AZ	NA	46.7	3.89	2.26	Prompt Corrective Action	02/22/11
Bank of Maumee	Maumee, OH	Winding Creek Hldgs LLC	34.6	8.22	6.02	Formal Agreement/Consent Order	10/21/10
1st Commerce Bank	North Las Vegas, NV	NA	32.2	3.55	2.08	Cease and Desist	07/13/10
High Desert Bank	Bend, OR	IPF Bank Servicing LLC	32.5	9.97	7.34	Cease and Desist	12/29/09
Pisgah Community Bank	Asheville, NC	First Carolina Finl. Svcs Inc.	30.3	2.54	2.02	Cease and Desist	05/05/10

Data as of Nov. 4, 2011.
Includes commercial/savings banks and savings institution subsidiaries of Capitol Bancorp Ltd.
¹ Mentioned as pending future sale per June 30, 2011, Form 10-Q; no signed definitive agreement as of Oct. 4, 2011.
² Institution financials are from Q3'11 regulatory filings except those for High Desert Bank (Q2'11).
³ Previous action for First Carolina State Bank was cease and desist issued Aug. 24, 2010.
Enforcement actions are publicly available through federal regulatory agencies.
Source: SNL Financial

John Donnelly, a managing director of Donnelly Penman & Partners, said the FDIC is showing a great deal of patience. "As long as they feel that Capitol Bancorp can continue to divest these subsidiaries on their own, I think that would be perceived as a better course of action by the FDIC," he told SNL.

Many of the company's subsidiaries are operating under enforcement actions, and a number have Tier 1 leverage ratios near 2% — the level at which banks are deemed "critically undercapitalized."

Donnelly suggested that the complexity of Capitol Bancorp's franchise could be one factor keeping regulators at bay. "It's not a franchise that lends itself to one-stop shopping by a buyer," he said. "It's not a cohesive franchise, so it's difficult to see even in an FDIC situation who would want to bid on it."

Wesley Brown, a managing director at St. Charles Capital LLC, agreed, suggesting that regulators realize that few buyers would want to bid for an organization that has so many partial ownership positions in banks. "That's a very unappealing target for most buyers of failed institutions," he told SNL. "By giving them time to work through the process, they are going to reduce the losses potentially at the FDIC."

Thus far the company has had success in selling off individual parts. In March, Capitol Bancorp [agreed to sell](#) its majority interest in Yuba City, Calif.-based [Bank of Feather River](#), pursuant to a selling shareholder agreement. The company said Oct. 4 that it [completed](#) the sale.

Also in March, the company announced plans to [exit Texas](#) by selling its majority interest in [Bank of Las Colinas](#) to [Collin Bank](#), a deal that was subsequently [terminated](#).

"We've had situations where we had an agreement with regard to the sale of an existing affiliate, and for one reason or another it was not completed. Las Colinas is an example of that," Moran said. "Given the attractive nature and significant interest in the Texas market, we had interest that was immediately expressed once the Collin Bank transaction did not go through."

Capitol Bancorp [ultimately sold](#) Bank of Las Colinas to Dallas-based [Veritex Community Bank NA](#), a unit of [WCM Holdings Inc.](#)

In May, Capitol Bancorp announced plans to exit the [Washington market](#) with the [sale](#) of Bellevue, Wash.-based [Bank of the Northwest](#) to an affiliate of Spokane, Wash.-based [AmericanWest Bank](#), a unit of [SKBHC Holdings LLC](#).

In June, AmericanWest Bank [agreed to acquire](#) San Diego-based [Sunrise Bank](#), which was 80% owned by Capitol Bancorp.

Capitol Bancorp continued to divest its assets in the West in July by agreeing to [sell](#) certain assets and liabilities of the Casa Grande, Ariz., [branch](#) of unit [Central Arizona Bank](#) to [Foothills Bank](#) and in August by plotting its exit from the Colorado market with the [sale](#) of its 51% [stake](#) in [Mountain View Bank of Commerce](#) to [NBC Bancshares LLC](#).

Later that same month, the company [agreed to sell](#) its 51% interest in Maumee, Ohio-based [Bank of Maumee](#) to [Winding Creek Holdings LLC](#).

Acquisition data for Capitol Bancorp's buyers		Acquired		
Pro forma company	Buyer (if different)	Branches	Deposits (\$M)	Assets (\$M)
SKBHC Holdings LLC		9	338.9	378.4
Verus Acquisition Group Inc.		3	175.6	223.8
Rabobank Nederland		1	142.4	167.0
Grandpoint Capital Inc.		2	168.4	160.0
Piedmont Community Bk Hldgs Inc.		2	128.8	149.5
First Carolina Financial Services Inc.		4	119.2	136.4
Bank of San Francisco	Management group	1	86.8	95.7
Foothills Bank		2	74.2	72.3
Bank of Belleville	Management group	1	63.6	70.8
USNY Bank	Management group	2	59.0	64.3
Ohio Commerce Bank	Management group	1	54.9	63.7
Bank of Santa Barbara	Investor group	1	51.7	63.1
NHI Finl Svcs Ptnrs LLC		2	44.1	54.7
Evansville Commerce Bank	Management group	1	45.9	50.4
WCM Holdings Inc.		1	42.9	48.7
Adams Dairy Bank	Investor group	1	23.9	42.2
Bank of Feather River	Investor group	2	32.4	38.9
Bank of Maumee	Winding Creek Holdings LLC	1	33.3	36.2
Friendswood Capital Corp.		1	28.2	35.6

Data as of Nov. 4, 2011.
Shows pro forma company name for acquirers of Capitol Bancorp. Ltd branches.
Branch/financial data at time of deal announcement.
Source: SNL Financial

While it has made progress in selling off its parts, Capitol Bancorp has also continued to face problems. In early March, the company said its Ann Arbor, Mich.-based unit [Michigan Commerce Bank](#) amended its regulatory financial statements for the period ended Sept. 30, 2010, following a joint examination of the bank by the FDIC and the Michigan Office of Financial and Insurance Regulation.

Michigan Commerce Bank had a Texas ratio north of 230% at Sept. 30, according to SNL data.

At the end of March, the company revealed that the SEC was [investigating](#) certain accounting and reporting matters involving some of its loans and the related allowance for loan losses.

By August, Capitol Bancorp said low equity levels and the inability to successfully access potential new capital resources could threaten its ability to continue as a [going concern](#).

At the time, Chairman and CEO Joseph Reid said the company was aggressively exploring all strategic alternatives and prospective sources of support.

When asked about the company's ongoing efforts to raise capital during a recent interview, Moran reiterated Reid's comments. "We're very focused on ... exploring and investigating any and every option and alternative on that front," he said.

Brown of St. Charles Capital said a recapitalization is not out of the question. "I think the regulators wisely are giving them as much time as possible to slowly simplify the organization," he said. "At the same time, they're slowly working through their problems and using the gains in capital that they get as they sell off these various banks throughout the states, many at a premium, to offset the losses that they're taking on the loan portfolio."

If the company continues to simplify and also makes progress resolving asset quality problems, Brown said it is possible that an investor will eventually be willing to step in and recapitalize the company.

But with shares trading around 6 cents, Donnelly said the company's options for raising capital are very limited. "It's still very precarious," he said. "As long as the FDIC sees some prospects of selling these parts on a going concern basis, they're going to let them continue."