




Friday, June 07, 2013 5:57 PM ET  **Exclusive**

UPDATE: Regulators take 4th chunk of Capitol Bancorp franchise

By [David Hayes](#) and [Lindsey White](#) and [Tahir Ali](#)

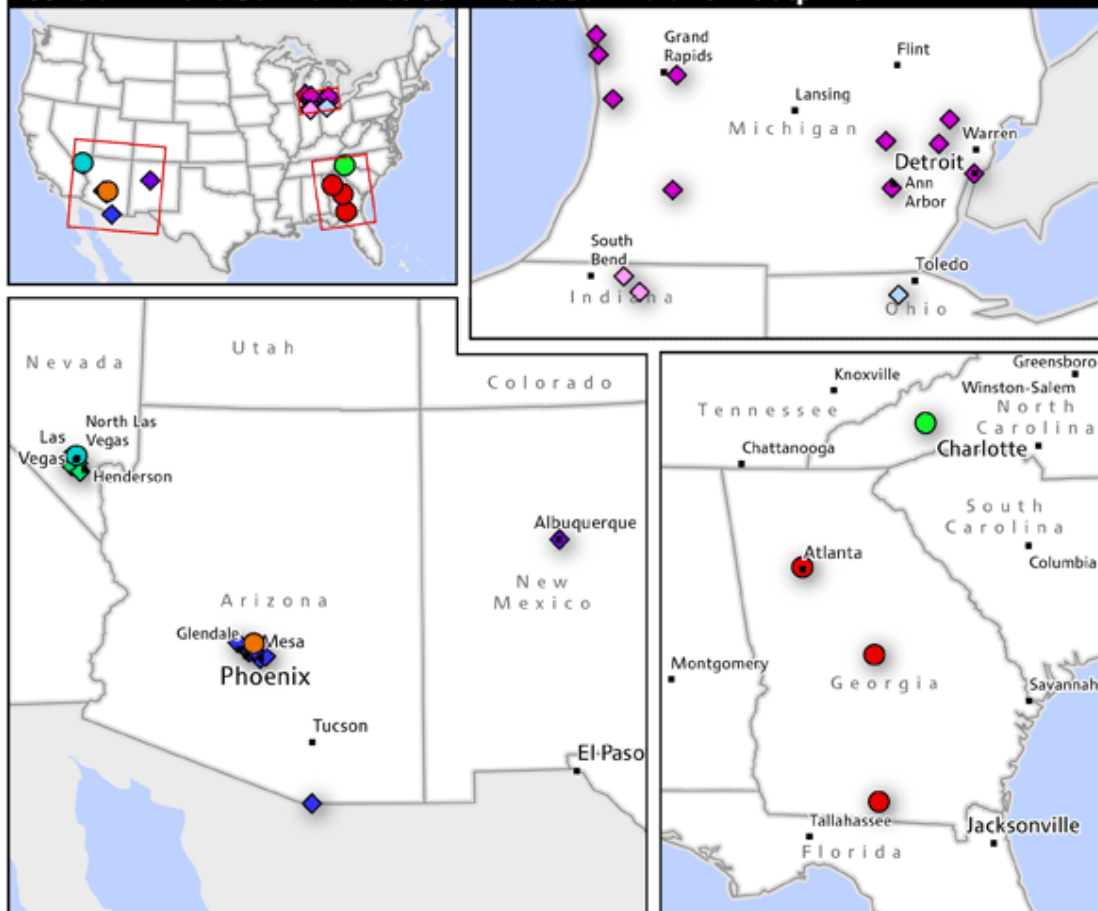
[Capitol Bancorp Ltd.](#) has repeatedly warned that the failure of one unit could bring down the entire franchise. As of June 6, regulators had seized four of the company's subsidiaries in the space of a month.

The North Carolina Office of the Commissioner of Banks [closed](#) Asheville-based [Pisgah Community Bank](#) on May 10, and shortly thereafter the Georgia Department of Banking and Finance [shut down](#) Valdosta-based [Sunrise Bank](#).

In a rare Tuesday failure, the Arizona Banking Superintendent [seized](#) Scottsdale-based [Central Arizona Bank](#) on May 14. FDIC spokesman Greg Hernandez told SNL that the bank was scheduled to be closed by the state regulator May 10, but the closing was delayed through a [legal challenge](#).

State regulators also attempted to close North Las Vegas, Nev.-based [1st Commerce Bank](#) on May 10, but the bank [fended](#) them off with a temporary restraining order. The FDIC stepped in and [closed](#) 1st Commerce on June 6.

Capitol Bancorp Ltd., Sunrise Bank, Pisgah Community Bank, Central Arizona Bank and 1st Commerce Bank branch footprint



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

As of June 6, 2013

Capitol Bancorp Ltd. branches are pro forma for openings/closings and completed mergers and acquisitions since June 30, 2012. Includes only those subsidiaries for which capital adequacy ratios were listed in Capitol Bancorp Ltd.'s Form 10-Q for the quarter ended March 31, 2013.

1 Sunrise Bank failed and was acquired by Synovus Financial Corp. on May 10, 2013.

2 Pisgah Community Bank failed and was acquired by Capital Bancorp Inc. on May 10, 2013.

3 Central Arizona Bank failed and was acquired by Western State Agency Inc. on May 14, 2013.

4 1st Commerce Bank failed and was acquired by Plaza Bank on June 6, 2013.

Source: SNL Financial

Map credit: Whit Varner



All four failed banks were small — as of March 31, Pisgah had \$21.9 million in assets and \$21.2 million in deposits; Sunrise Bank had about \$60.8 million in total assets and \$57.8 million in total deposits; Central Arizona had roughly \$31.6 million in assets and \$30.8 million in deposits; and 1st Commerce had about \$20.2 million in assets and \$19.6 million in deposits. All four had significant concentrations of commercial real estate loans.

North Carolina's Interim Commissioner of Banks seized Pisgah after the bank failed to come up with a recapitalization plan that did not rely on injections from its holding company. In an Order Taking Possession, the commissioner called the bank's problems "permanent and irremediable."

"Since May 2010, the officers and directors of the Bank have been aware of the problems and deficiencies and have not made appropriate corrections," the order stated.

Pisgah had a 2.48% leverage ratio March 31. At 2.44%, 1st Commerce Bank's was even lower. Among Capitol's remaining subsidiaries, Sunrise Bank of Arizona had a leverage ratio of 2.27% March 31. Bank of Las Vegas, the unit Capitol was seeking to merge with 1st Commerce, had a leverage ratio of 2.21% at the end of the first quarter.

Leverage ratio at Capitol Bancorp Ltd.'s subsidiaries

Tier 1 capital/adjusted average assets (%)

Subsidiary	City, state	Leverage ratio					
		Q1'13	2012Y	2011Y	2010Y	2009Y	2008Y
*1st Commerce Bank	North Las Vegas, NV	2.44	2.03	2.30	-0.42	7.08	10.01
Bank of Las Vegas	Henderson, NV	2.21	2.01	2.16	2.06	6.34	8.45
Bank of Maumee	Maumee, OH	3.82	4.00	5.58	7.33	9.00	10.38
*Central Arizona Bank	Scottsdale, AZ	2.13	2.04	2.01	2.24	3.87	13.38
Indiana Community Bank	Goshen, IN	8.45	8.33	6.66	6.34	8.11	7.96
Michigan Commerce Bank	Ann Arbor, MI	3.88	2.61	2.17	1.15	3.96	7.89
*Pisgah Community Bank	Asheville, NC	2.48	2.14	2.09	0.51	10.17	22.86
*Sunrise Bank	Valdosta, GA	1.39	2.07	2.16	2.14	7.12	7.92
Sunrise Bank of Albuquerque	Albuquerque, NM	4.02	2.01	2.43	2.43	6.23	8.50
Sunrise Bank of Arizona	Phoenix, AZ	2.27	2.05	2.03	0.69	3.62	6.74

Includes only those subsidiaries for which capital adequacy ratios were listed in Capitol Bancorp Ltd.'s Form 10-Q for the quarter ended March 31, 2013.

Capitol Bancorp Ltd. sold its remaining stake in Lansing, Mich.-based Capitol National Bank in April 2013.

Data is based on regulatory filings.

* Pisgah Community Bank and Sunrise Bank failed on May 10, 2013. Central Arizona Bank failed on May 14, 2013. 1st Commerce Bank failed on June 6, 2013.

All data is current as of June 7, 2013.

Source: SNL Financial



After state regulators appointed the FDIC receiver, Rockville, Md.-based Capital Bank NA, a unit of Capital Bancorp Inc., assumed all of Pisgah's deposits and approximately \$19.8 million of its assets.

Columbus, Ga.-based Synovus Bank, a unit of Synovus Financial Corp., assumed about \$54 million in deposits from Sunrise Bank and purchased about \$13.2 million of the failed bank's assets.

On May 14, Devils Lake, N.D.-based Western State Bank, a unit of Western State Agency Inc., assumed all of the deposits and purchased essentially all of the assets of Central Arizona Bank.

The FDIC signed a purchase and assumption agreement with Irvine, Calif.-

based Plaza Bank to acquire all the deposits and essentially all the assets of 1st Commerce Bank on June 6. Plaza Bank is a unit of PB Holdings Inc., whose ownership is shared by funds affiliated with Carpenter Bank Partners Inc.

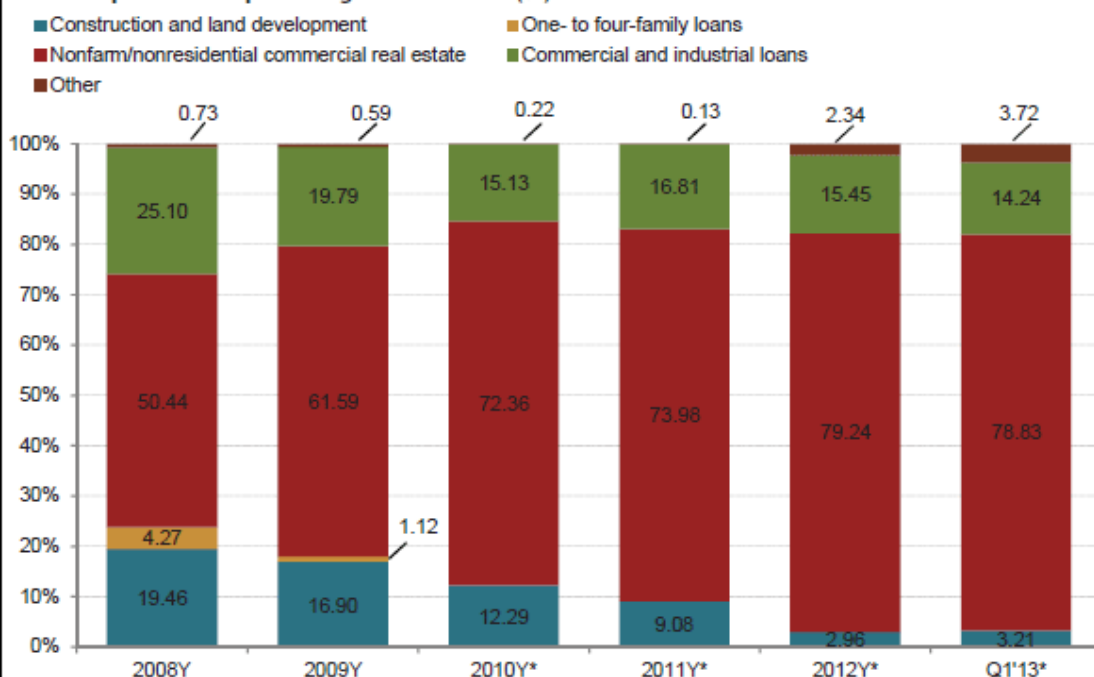
When the first Capitol Bancorp subsidiary went down, the FDIC declined to comment on whether a failure would trigger cross-liability claims against other Capitol units. "We wouldn't comment on the other institutions, as they are open and operating. And we also wouldn't comment on potential enforcement action," FDIC spokeswoman LaJuan Williams-Young told SNL on May 10.

Capitol Bancorp has warned that the failure of any of its subsidiary banks would have "disastrous consequences."

"If even a single subsidiary bank were to be seized by the FDIC, it is likely that the FDIC would assert cross guarantee claims against the Company's solvent subsidiary banks, thereby crippling these subsidiary banks as well," Capitol Bancorp said in a June 2012 filing.

1st Commerce Bank's loan composition

Values expressed as a percentage of total loans (%)



Data is based on regulatory filings.

* One- to four-family loans accounted for 0% of total loans at year-end 2010, 2011 and 2012 as well as quarter-end March 31, 2013.

Percentages may not sum to 100% due to rounding.

All data is current as of June 7, 2013.

Source: SNL Financial



This obviously has not been the case so far, as a number of Capitol Bancorp units continue to operate. Greg Dings, executive vice president and head of investment banking at Monroe Securities, said regulators continue to knock off the worst of Capitol Bancorp's subsidiaries but still have not decided to exercise their cross-guaranty rights. He called this a wise strategy, given the situation and the company's unique ownership structure.

"My guess is [regulators] keep doing something like this until they feel like moving on the entire organization makes sense, but they haven't gotten to that point yet," Dings told SNL.

Cross-guaranty claims have toppled entire franchises in the past. Andrew Christians, vice president at Donnelly Penman & Partners, gave the

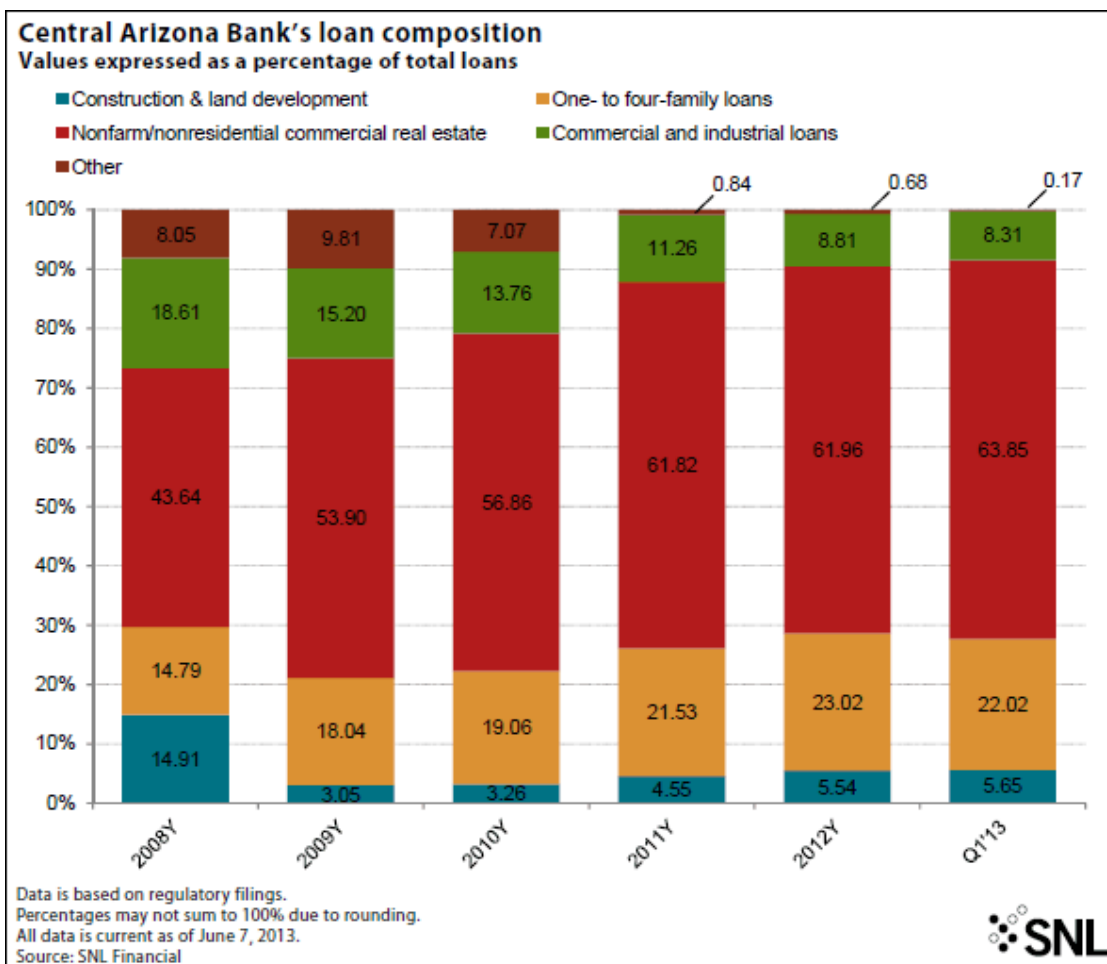
example of Oak Park, Ill.-based FBOP Corp., which saw nine of its banking units shuttered in one day in 2009. U.S. Bancorp assumed all deposits and most assets of the failed banks.

Of course, there are differences between the two situations. "When FBOP failed, granted, it was [several] years ago, it was much larger, the economy was in a different place, and its geographies were quite a bit different at the subsidiary banks," Christians said.

Capitol Bancorp's ownership structure is also different, and some observers say it may be preventing the FDIC from taking more sweeping action. The company has partial ownership in several banking units spread across the U.S.

Dingens said the FDIC is "breaking their own rules a little bit" to give local investors in Capitol Bancorp's subsidiaries a chance to recapitalize and get out from underneath the holding company ownership. "They're not penalizing the local investors for the sins of the parent as quickly as they might otherwise," he said.

Christians suggested that the FDIC may be in the process of looking for interested buyers for Capitol Bancorp's remaining banking units. "A lot of folks like certain parts of the franchise but don't like the entire franchise. It's a very convoluted structure," he said, adding that the FDIC may be "dragging their feet" on the cross-guaranty liability because of a lack of buyers.



Lansing, Mich.-based Capitol Bancorp has struggled to raise capital for years, restructuring and selling off a number of parts in the process. In August 2012, the company filed for a prepackaged Chapter 11 bankruptcy reorganization in the U.S. Bankruptcy Court for the Eastern District of Michigan, but various challenges forced it to scrap that plan.

In February, the court granted approval for an interim emergency motion by Capitol Bancorp to pursue a \$1 million loan to prevent the possible imminent seizure of its Sunrise Bank of Albuquerque unit. Bankruptcy counsel for the company warned that Capitol Bancorp's other banking units "probably would go under" if Sunrise Bank of Albuquerque failed and the FDIC asserted cross-guaranty liabilities.

In a Form 10-Q filed May 15, Capitol Bancorp said it sold its remaining stake in Capitol National Bank in April. Capitol

Bancorp said that proceeds from the sale are in escrow pending the issuance by the FDIC of a waiver of cross-guaranty liability. However, the company, in a Chapter 11 liquidation plan it proposed May 16, said the sales of its interests in Maumee, Ohio-based Bank of Maumee and Capitol National Bank remain "pending" and "are subject to regulatory approval and other significant contingencies."

"My understanding is that it's the FDIC's right, but not obligation, to seize other subsidiaries of the same holding company in order to try to recover their funds," Dingens said. "[The FDIC has] been exercising a judgment call and saying, 'I'd rather not take them all down, I'd rather give some of them a chance to be recapitalized independently.'"

Christians said the fact that the failure of four subsidiary banks has not toppled Capitol Bancorp suggests that the FDIC will continue closing one bank at a time, instead of taking down the entire franchise. "If they failed the holding company, I don't know if there would be one buyer for all those assets," Christians said. "So it might be in the best interest of everyone involved for them to allow the banks to continue to operate as community banks, until the time comes where they cannot or there's a capital solution in place."

In the wake of the four failures, Capitol Bancorp Corporate President Cristin Reid told SNL that the company will stay focused on finding positive solutions for its remaining affiliate banks.

Sunrise Bank's loan composition
Values expressed as a percentage of total loans



Data is based on regulatory filings.
 Percentages may not sum to 100% due to rounding.
 All data is current as of June 7, 2013.
 Source: SNL Financial



Pisgah Community Bank's loan composition

Values expressed as a percentage of total loans



Data is based on regulatory filings.
 Percentages may not sum to 100% due to rounding.
 All data is current as of June 7, 2013.
 Source: SNL Financial

