

## First Bank comes roaring back

Area banks stem bleeding; profits up 168 percent

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The vast majority of banks based in St. Louis are showing marked improvement in profitability compared with a year ago — especially **First Bank** — but those with seriously troubled assets are not.

With profits at the 75 banks up 168 percent as of March 31, to \$39.1 million from \$14.6 million a year earlier, bankers said they are beginning to get their worst problems behind them, resulting in a steady but unusually slow recovery.

The biggest recovery is under way at First Bank, which reduced its quarterly loss to \$3.04 million from \$23.17 million in the first quarter of 2010. It had a disproportionate amount of bad real estate loans, has been under regulatory supervision, and has been raising capital and aggressively selling branches, including 24 in the Chicago area, 11 others in northern Illinois and 19 in Texas. It is by far the largest of the banks headquartered here, with \$7.18 billion in assets, down from \$9.03 billion a year ago.

"With continued success in reducing the level of problem loans, we have been able to reduce our provision for loan losses, improve our earnings and build the bank's capital ratios," said **Terry McCarthy**, First Bank president and chief executive.

"We are beginning to see bank earnings stabilize," said **Rick Bagy**, president of **First National Bank of St. Louis**, where net income rose to \$4.96 million in the first quarter of 2011 from \$4.61 million in the first quarter of 2010. "Unlike last year, very few banks are losing significant amounts of money."

The latest figures were released this week by the **Federal Reserve Bank of St. Louis**. They do not include the largest banks doing business here, such as **U.S. Bank** and **Bank of America**, which are based elsewhere and do not break out their financial data by geographic market.

"We have seen banks work very hard to write down or renegotiate troubled real estate loans, a high percentage of which are construction and land development loans," said **Julie Stackhouse**, senior vice president of the St. Louis Fed. "These actions, along with a stabilizing economy, have mostly leveled the volume of troubled loans."

But the troubles remain deep at **Reliance Bank**, the sixth largest in St. Louis, with \$1.18 billion in assets. Its loss in the quarter exceeded First Bank's at \$4.58 million, up from a loss of \$878,000 in same quarter last year. It, too, has been hit hard by bad commercial real estate loans, in St. Louis and especially in Florida, where it has three branches.

Reliance has been under a consent order from the **Federal Deposit Insurance Corp.** (FDIC) since February to shore up capital, cut expenses and take other steps to improve performance. It also suspended payment of dividends due on the U.S. Treasury's TARP investment and on more than \$500,000 in Series C preferred stock.

"We will continue to shrink our overall loan portfolio in order to maintain liquidity, preserve capital and reduce our concentration in commercial real estate," said **Allan Ivie IV**, who was named president and CEO of Reliance Bank in June 2010. "Despite the losses resulting from our exposure to commercial real estate, our St. Louis community bank operations remain sound with strong core earnings."

**Truman Bank**, with \$363.1 million in assets, is another troubled player, with a loss of \$2.24 million in the quarter, compared with a profit of \$468,000 a year ago. It also ranked near the bottom in return on average assets, at negative 2.35 percent, which gauges profitability and performance relative to other banks by dividing net income by average total assets.

Truman has been under regulatory scrutiny since December 2008 and has undergone several changes in top management. The problems are complicated but "the strategy is very simple — to collect money and create capital," **Jim Shubert**, a Truman investor, said earlier this year when he took over as chairman and acting president.

"What really jumps out is how little has changed for the banks that are struggling," said **Jim Wagner**, chief executive of Parkside Financial Bank & Trust, with \$194.2 million in assets and a profit of \$249,000 in the recent quarter. He noted that most of the banks that lost money in 2010 are still losing money. "What this says is that it is not easy for banks to rectify bad asset problems once they develop."

And the Fed's Stackhouse cautioned that "a recovery in construction and land development loans will depend on a recovery in housing, which will take time."

One bank that lost money in 2010 but swung to a profit in the first quarter this year is 1st **Advantage Bank**, with \$93.6 million in assets. It posted net income of \$342,000 in the quarter after losses of \$39,000 in the same quarter last year and \$3.7 million in fiscal 2010.

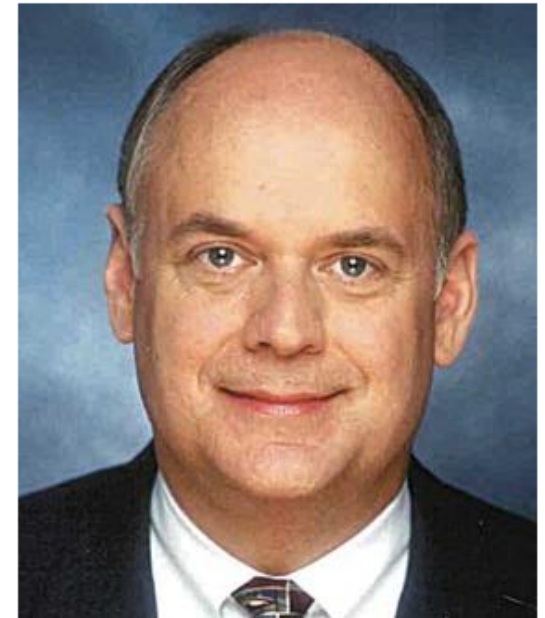
Enterprise Bank & Trust, the second largest of the banks, with \$2.91 billion in assets, also recorded a profit of \$8.49 million after a loss of \$1.61 million in the first quarter of 2010 and a fiscal 2010 profit of \$13.8 million. Its parent, **Enterprise Financial Services Corp.**, also reported a first-quarter profit, \$7.1 million, compared with the loss of \$3 million in the quarter last year.

"We added about \$19 million in commercial and industrial loans and reduced our construction loan portfolio by \$29 million," said **Steve Marsh**, Enterprise Bank & Trust chairman and chief executive. In addition, it entered into a loss share agreement with the FDIC in January and acquired limited assets and liabilities of Legacy Bank of Scottsdale, Ariz., which added \$128 million in assets.

Other significant results from the quarter: Bad loans, called nonperforming loans because they are paying no interest, totaled \$1 billion at the banks, compared with \$1.27 billion in the first quarter of 2010. Total loans were \$21.1 billion, compared with \$27.1 billion a year ago.

The St. Louis Fed's 2010 numbers encompassed 78 banks but decreased by three in 2011. Two failed banks, Champion and WestBridge, were sold to financial institutions headquartered elsewhere, and **Southwest Bank** began reporting through its owner, M&I Bank, which is based in Milwaukee.

First-quarter Performance  
 At largest St. Louis-based banks  
 Bank 1Q 2011 net income (in thousands) 1Q 2010 net income (in thousands)  
 First Bank -\$3,043 -\$23,171  
 Enterprise Bank & Trust \$8,489 -\$1,615  
 Stifel Bank & Trust \$3,168 \$2,581  
 Bank of Edwardsville \$2,451 \$1,903  
 First National Bank of St. Louis \$4,964 \$4,609  
 Reliance Bank -\$4,581 -\$878  
 Source: Federal Reserve Bank of St. Louis



Terry McCarthy - President, chief executive First Bank