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U.S. Bank Failures Reach 26

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Though the economy is showing signs of a gradual recovery, tumbling home prices, soaring loan defaults and rising unemployment continue to take their toll on small banks. As a result, U.S. regulators on Friday shuttered four more banks in Florida, Illinois, Maryland and Utah. This brings the total number of bank failures to 26 so far in 2010, compared to 140 in 2009, 25 in 2008 and 3 in 2007.

While we expect economic recovery to gain momentum soon, there remain lingering concerns in the banking industry. Failure of both residential and commercial real estate loans as a result of the credit crisis has primarily hurt banks. As the industry tolerates bad loans made during the credit explosion, the trouble in the banking system goes even deeper, increasing the possibility of more bank failures.

The failed banks were: Boca Raton, Florida-based Sun American Bank with $535.7 million in assets and $443.5 million in deposits, Normal, Illinois-based Bank of Illinois with $211.7 million in assets and $198.5 million in deposits, Maryland-based Waterfield Bank of Germantown with $155.6 million in assets and $156.4 million in deposits and Centennial Bank in Ogden, Utah, with $215.2 million in assets and $205.1 million in deposits.

These bank failures will deal another blow to the Federal Deposit Insurance Corporation’s (FDIC) fund meant for protecting customer accounts, as it has been appointed receiver for these banks. The FDIC insures deposits at 8,195 institutions with roughly $13.5 trillion in assets.

When a bank fails, FDIC reimburses customers for their deposits of up to $250,000 per account. The outbreak of bank failures has significantly stretched the regulator’s deposit insurance fund. However, the FDIC has about $66 billion in cash and securities available in reserve to cover losses of bank failures. Also, the FDIC has access to the Treasury Department’s credit line of up to $500 billion.

The failure of Sun American Bank is expected to cost the deposit insurance fund about $103.8 million, Bank of Illinois is estimated to cost abut $53.7 million, Waterfield Bank of Germantown is expected to cost about $51 million and Centennial Bank is estimated to cost about $96.3 million.

Bloomington, Illinois-based Heartland Bank and Trust Co. will assume the assets and deposits of Bank of Illinois. The FDIC will share losses with Heartland on $166.6 million loans and other assets of Bank of Illinois.

Raleigh, North Carolina-based First-Citizens Bank & Trust Co. will assume the assets and deposits of Sun American Bank and it will share losses with the FDIC on $433 million of the Sun American Bank’s loans and other assets.

FDIC was unable to find buyers for Centennial Bank and Waterfield Bank. However, **Zions Bancorp**. (**ZION** - Analyst Report) will take over some operations of Centennial Bank.

Increasing loan losses on commercial real estate are expected to cause hundreds more bank failures in the next few years. The FDIC anticipates bank failures to cost about $100 billion over the next three years. The failure of Washington Mutual in 2008 was the largest in U.S. banking history. It was acquired by **JPMorgan Chase** (**JPM** - Analyst Report).

The other major acquirers of failed institutions since 2008 include **Fifth Third Bancorp** (**FITB** - Analyst Report), **U.S. Bancorp** (**USB** - Analyst Report), Zions Bancorp, **SunTrust Banks** (**STI** - Analyst Report), **PNC Financial** (**PNC** - Analyst Report), **BB&T Corporation** (**BBT** - Analyst Report) and **Regions Financial** (**RF** - Analyst Report).

We expect loan losses on the commercial real estate portfolio to remain high for banks that hold large amounts of high-risk loans.