USA: Federal regulators close 9 banks, mostly in West

Federal regulators close 9 banks, mostly in West; marks 115 US bank failures this year

- Tim Paradis and Marcy Gordon, AP Business Writers
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NEW YORK (AP) -- Regulators on Friday shut California National Bank of Los Angeles and eight smaller related banks as the weak economy continues to produce a stream of loan defaults.

The banks closed by the Federal Deposit Insurance Corporation were in California, Illinois, Texas and Arizona. They were divisions of privately held FBOP Corp., a bank holding company based in Oak Park., Ill.

U.S. Bank in Minneapolis, a division of US Bancorp, agreed to assume the deposits and most of the assets of the banks. The banks had combined assets of $19.4 billion and deposits of $15.4 billion at the end of September, the FDIC said.

The nine banks had 153 offices, which will reopen as U.S. Bank branches Saturday.

FBOP Corp., itself wasn't closed under the deal, grew from one bank with assets of $125 million in 1990. From 1990 to 2007 the company acquired 28 banks, according to its Web site.

The closing of nine banks in one day was the most the FDIC has shut since the financial crisis began taking down banks last year. The closings boost the number of failed U.S. banks this year to 115. In 1989, during the savings-and-loan crisis, the FDIC closed 534 banks, or about 10 a week.

California National Bank had 68 branches. About 100 FDIC employees arrived at the CalNational headquarters in downtown Los Angeles at around 6:15 p.m on Friday. They were seen fanning out into various offices around the building, a squat concrete structure that prominently displays the failed bank's name.

The FDIC simultaneously arrived at the bank's other branches, spokeswoman Roberta Valdez said. She said the FDIC would spend the weekend transferring the bank to U.S. Bank.

Besides California National Bank, the banks involved in the latest round were Bank USA, NA, in Phoenix; San Diego National Bank; Pacific National Bank in San Francisco; Park National Bank in Chicago; Community Bank of Lemont in Illinois; North Houston Bank, Madisonville State Bank, and Citizens National Bank in Teague, all in Texas.

Rick Hartnack, vice chairman of consumer banking for U.S. Bancorp, said the move complements its operations in California, Illinois and Arizona. The deal doubled the company's branches in California so that more than 20 percent of U.S. Bank's branch network will be in the state.

The company will have nearly 3,000 branches in two dozen states.

"California and Chicago turned out to be two of the most attractive markets in the country where we just didn't have the branch density that we wanted," he said.

US Bancorp in October reported a 4.7 percent increase in its third-quarter earnings and said it wasn't seen bad loans grow as fast as they had been earlier this year. The company's stock fell 99 cents, or 4.1 percent, to $23.22 as part of a broad slide in stocks Friday.

As the economy has soured, with unemployment rising, home prices tumbling and loan defaults soaring, bank failures have cascaded and sapped billions out of the deposit insurance fund. It has fallen into the red.

The FDIC expects Friday's closings will cost the fund $2.5 billion. The FDIC and U.S. Bank agreed to share losses on about $14.4 billion of the combined purchased assets of $18.2 billion.

Failures have been especially concentrated in California, Georgia and Illinois. While the pounding from losses on home mortgages may be nearing an end, delinquencies on commercial real estate loans remain a hot spot of potential trouble, regulators say. If the recession deepens, defaults on the high-risk loans could spike. Many regional banks, especially, hold large concentrations of these loans.

Also on Friday, agencies including the FDIC, the Federal Reserve and the Office of Thrift Supervision issued guidelines for banks modifying troubled commercial real estate loans. They emphasize the principle that modifying loans in a prudent manner is often in the best interest of both the bank and the creditworthy commercial borrower.

The 115 failures are the most in a year since 1992 at the height of the savings-and-loan crisis. They have cost the federal deposit insurance fund more than $25 billion so far this year, and hundreds more bank failures are expected to raise the cost to around $100 billion through 2013.

To replenish the fund, the FDIC wants the roughly 8,100 insured banks and savings institutions to pay in advance about $45 billion in premiums that would have been due over the next three years.

Depositors' money -- insured up to $250,000 per account -- is not at risk, with the FDIC backed by the government. The FDIC still has billions in loss reserves apart from the insurance fund. It can also tap a Treasury Department credit line of up to $500 billion -- $100 billion of which does not require Treasury's approval.

The Obama administration recently proposed a plan to provide infusions of money to small banks at low interest rates, provided they agree to increase lending to small businesses. Banks and credit unions that serve low-income areas would get aid at even lower rates to help small businesses in the hardest-hit rural and urban areas. The aid would come from money still available in the $700 billion federal bailout fund, which went mostly to large banks.

The 115 bank failures this year compare with 25 last year and three in 2007.

Banks have been especially hurt by failed real estate loans. Banks that had lent to seemingly solid businesses are suffering losses as buildings sit vacant. As development projects collapse, builders are defaulting on their loans.

The number of banks on the FDIC's confidential "problem list" jumped to 416 at the end of June from 305 in the first quarter. That's the most since June 1994. About 13 percent of banks on the list generally end up failing, according to the FDIC.

Gordon reported from Washington. Thomas Watkins reported from Los Angeles.

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