

# Capitalization of most Memphis banks sufficient to ride the recession out

BY CHRISTOPHER SHEFFIELD

Most Memphis-based banks appear to be in relatively strong capital positions,

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Bank of Lynchburg and is headed up by former Magna Bank CEO Bill Menkel.

The St. Louis Federal Reserve announced Oct. 29 that Bank of Bartlett had signed a written agreement that, in part, spells out or requests certain steps

which should bode well for them and the community going forward, say several observers.

Of the 27 banks based in the Memphis metropolitan area, 25 were considered "well capitalized" by the Federal Deposit Insurance Corp. metrics, as of June 30.

Only two banks, Bank of Bartlett and Oakland Deposit Bank, posted capital levels below the total risk-based capital ratio of 10%. Bank of Bartlett came in at 7.60% and Oakland Deposit at 4.84%. Actions have since been taken that address capitalization and safety and soundness issues for both banks.

The assets of Oakland, a \$125 million-asset bank based in Fayette County, were purchased by The Farmers Bank of Lynchburg in October. The bank is now operating as a division of Farmers

**Ranking banks by capitalization:** A list of Memphis-area banks includes information about risk-based capital ratios and return on asset percentages. **Page 12**

intended to improve capital ratios. That can be done through raising capital, reducing assets or both, which Bank of Bartlett chairman Bob Byrd has said the institution is pursuing.

Bank of Bartlett executives say those efforts have long been under way and are bearing fruit. Its third quarter financial report bears that out, indicating the company posted a profit in the third quarter, thus reducing the loss for the year to \$1.6 million and showing it had reduced its bank-owned real estate portfolio.

Doug Southard, a principal at the valuation consulting firm Southard Financial Services, says for the most part, Memphis banks "are relatively healthy" despite the two-year recession.

"We started out with our banks relatively well capitalized before all of this," Southard says.

That doesn't mean many haven't had to deal with serious issues on the real estate side of their business model, Southard says. But for many had nearly a decade of strong earnings which helped build a buffer against the economic storm.

The bank with the highest capital ratio in the market was Collierville-based Landmark Community Bank at 27.11%. It was also the bank with the lowest return on equity ratio in the market at -55.24%, a ratio that typically speaks to how well a bank is managing expenses and credit quality. The lower the ratio, the more likely the bank is struggling with higher expenses and/or less income. In banking, it's possible to have high capital levels and

significant losses as banks get aggressive and write-off the expected income from loans, which many have done, Southard and others say.

Of the 27 banks, 11 reported negative ROE with Landmark leading the pack. Fidelity National Bank in West Memphis had the highest at 20.39%.

Southard's firm worked with Landmark's new ownership group led by Jake Farrell and Buddy Dickey earlier this year when it raised about \$14 million from 75 investors.

Though the bank has been around a decade, Southard says Landmark is sort of acting "like a newcomer" and as such expects to have some heavy losses in order to get the ship righted.

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**Greg Noonan**  
Gregory Noonan & Associates, Inc.

"Landmark is basically in restart-up mode," he says.

Rusty Butcher, firm wide director of Horne LLP's financial institutions consulting business, says in a non-recessionary environment numbers like return on assets and return on equity are gauges of health — but not now.

"I don't see banks focusing on those measures nearly like they would in a normal environment," Butcher says. "Ev-

erybody accepts that these are unusual times and they may have some blips and things that bring those numbers down from the normal basis."

But credit quality and ROA are important measures, says bank consultant Greg Noonan, president of Germantown-based Gregory Noonan & Associates, Inc.

"A bank can be rated as well-capitalized, but that can change quickly based on credit quality and ROA," he says.

That has been the situation for many banks in the last two years. Well capitalized banks had significant credit losses and impaired earnings, he says, "which eroded capital levels quickly."

Still, the apparent high level of capitalization of many banks is what some critics have pointed to, claiming banks are hoarding cash and not lending. But the fact that capital levels can change quickly is the reason why banks are holding on to cash, some consultants say. Also, those ratios can be deceiving. They can be derived by not only cash influx, as through government stimulus funds or private equity raises, but also by a shrinking asset base, either on purpose or via a changed business model.

No better local example of that is First Tennessee Bank, which has shrunk employment by half to 6,000, sold off several pieces of the company and abandoned a national expansion plan, all in the last two years. In the process, First Tennessee is a virtual shell of its former self as assets have dropped from \$37 billion in June 2006 to \$28.5 billion as of June 2009, according to FDIC data.