



# Red tide

Small banks trading water amid weak earnings and rising bad loans

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Buoyed by tens of billions of dollars in federal assistance, Bank of America, Wells Fargo, JPMorgan Chase & Co. and Goldman Sachs reported better-than-expected first-quarter profits. Bank stock indices have moved higher since early March and more private capital is flowing into financial institutions.

In New Jersey, however, some small banks are reporting weak earnings and facing a rising tide of bad loans. Many have become takeover targets for deep-pocketed rivals. Among the more notable deals:

■ Four-year-old Citizens Community Bank in Ridgewood, a tiny bank with less than \$50 million in assets, last month became the first New Jersey bank to fail in five years. Its deposit customers were sold by the Federal Deposit Insurance Corp. to North Jersey Community Bank in Englewood Cliffs.

■ Twelve-year-old First Bank Americano of Elizabeth, which has about \$160 million in assets and more troubled loans than capital, said last month that it is being purchased by Brick-based JJR Bank Holding Co. for an undisclosed amount that an attorney for First Bank Americano described as "nominal."

■ In February, ISN Bank in Cherry Hill agreed to be bought by MidCap Financial Holdings LLC in Bethesda, Md., for just \$1.3 million, to avoid a takeover by the FDIC.

Industry observers say these deals are evidence New Jersey banks — like institutions in other parts of the country — remain under more stress than at any time since the savings-and-loan crisis, and they predict more shotgun weddings and perhaps more failures in the months ahead.

"Some small institutions experiencing earnings or asset quality problems are going to look for a partner to team up with and [the trend] is going to accelerate through the rest of the year," said Donald Musso, president of Liberty Corner-based FinPro, a consultant to community banks. The company advised First Bank Americano in the JJR Bank Holding deal. More failures are likely, he said. "I would be surprised if it's more than a handful," said Musso.

The FDIC has closed more than 30 banks so far this year, and more than 300 are on its growing list of problem institutions. The government keeps names of problem

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## New Jersey bank deals

Year	Number of deals	Total value
2002	5	\$223.7 million
2003	6	\$2.19 billion
2004	6	\$567.3 million
2005	6	\$2.26 billion
2006	7	\$1.10 billion
2007	5	\$9.83 billion
2008	3	\$264 million
2009*	3	\$62.6 million

Source: SNL Financial  
\*As of May 27

## Recent and pending N.J. bank takeovers

Most recent New Jersey bank deals appear to be distress sales as small institutions struggle with weak earnings and increasing bad loans.

Target	Buyer	Announced	Amount
American Bancorp of New Jersey, Bloomfield	Investors Bancorp Inc., Short Hills	Dec. 14	\$99 million
ISN Bank, Cherry Hill	MidCap Financial Holdings LLC, Bethesda, Md.	Feb. 6	\$1.3 million
First Americano Financial Corp., Elizabeth	JJR Bank Holding Co., Brick	May 11	Not disclosed
Central Jersey Bancorp, Oakhurst	OceanFirst Financial Corp., Toms River	May 26	\$61.3 million

Source: SNL Financial

# Banks: Some in N.J. under stress

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lenders secret for fear depositors would rush to withdraw their money, perhaps hastening the banks' demise. But those who have large uninsured deposit accounts have reason to worry if their bank is on the verge of collapse. They could lose some of their money if it fails. The insurance limit is \$250,000 on individual accounts and \$500,000 on joint accounts.

The Web site banktracker.org, a project of American University, provides some insight into which banks might be in trouble or headed that way. New Jersey banks with problem asset levels well above the national average of 9.9 percent of capital and reserves as of Dec. 31 included Ridgewood's Citizens Community Bank, ISN Bank in Cherry Hill and Elizabeth-based First Bank Americano, which has branches in Clifton, Harrison, Union City and West New York. Citizens had a troubled-asset ratio of more than 700 percent before it went under, and ISN Bank had a ratio of 111 percent. A ratio above 100 percent means the troubled assets exceeded capital and loan-loss reserves. First Bank Americano's ratio was 85.3 percent as of Dec. 31 and its condition worsened in the first quarter.

The Bergen County banks with the most favorable ratios were Edgewater-based Mariner's Bank (27.7 percent) and BNB Bank in Fort Lee (41.5 percent). Both were well-capitalized as of March 31 by regulators' standards. Mariner's had a Tier 1, or core capital, ratio of 6.6 percent and BNB had a ratio of 10.2 percent. Tier 1 capital consists mainly of the money investors paid to buy shares, plus retained earnings. A ratio of 6 percent or above is considered well-capitalized.

Senior managers at Mariner's and BNB say those two banks are not in danger of being taken over by the FDIC.

Minority-owned BNB Bank, one of New Jersey's largest Small Business Administration lenders, primarily serving Korean-American businesses, is "a very well-capitalized bank" and is "absolutely not" for sale, said Daniel Cardone, executive vice president. BNB received in April an additional \$7.5 million boost in capital through the federal government's Troubled Asset Relief Program, and only healthy community banks were eligible for the program, Cardone noted.

As of March 31, before receiving the TARP money, BNB had more troubled assets than capital when loans 30 to 89 days past due were included. However, many of the potential losses — primarily from commercial mortgages — are expected to be avoided, Cardone said. The non-performing loans are "largely either SBA guaranteed or secured by commercial real estate or a combination of both," he said.

Mariner's Bank's Chief Operating Officer Frank Giancola said, "Like everybody else, we are struggling to get through some past-due loans, but we're making money and our net interest margin is significantly above our peers."

"There is absolutely no chance of [Mariner's] being sold," added Fred Daibes, who is the bank's chairman and owns more than 70 percent of its shares. "We are looking to be an acquirer," he said. Daibes said the bank is moving



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"It's a good time to be an acquirer," says Domenick Cama, chief operating officer of Investors Bancorp.

ahead with plans to add branches this year in Park Ridge and Englewood.

Daibes attributed Mariner's recent losses — including a \$1.7 million first-quarter loss and a 2008 net loss of \$1.2 million — largely to increased provisions for bad loans and write-downs of investments in Fannie Mae and Freddie Mac preferred shares and stock of now-defunct Lehman Brothers.

When banks have high levels of troubled assets, "it is not a good situation," but "it doesn't necessarily mean they will fail," said Michael Horn, a banking lawyer and partner in the Newark firm McCarter & English LLP. Lenders can get their money back by foreclosing on and selling collateral or by working out payments with the borrower. Some bad loans may be guaranteed in part by the government.

And as the bank brings in more profits, additions to loan-loss provisions can be made. But if earnings are weak, bad loans can quickly eat up a bank's capital base, putting deposits at risk. And it is difficult for banks to raise new capital at a reasonable price in today's market.

Banks' loan problems are likely to persist despite recent signs the financial sector is on the mend, Musso said. "It's going to take two to three years to work through this," he said.

A spokesman for the state Department of Banking and Insurance said Tuesday in an e-mail response to questions that the regulator "continues to closely monitor our state chartered financial institutions for safety and soundness."

"As [Commissioner Steven Goldman] pointed out, Citizens Community Bank was an isolated incident," wrote spokesman Mar-

shall McKnight. "The vast majority of New Jersey's state chartered financial institutions are well-capitalized, operating normally and practicing sound underwriting in their active lending portfolios," he wrote. McKnight declined to comment on the condition of individual banks.

One thing is clear: The problems faced by the weaker banks are allowing healthier rivals to snap up branches on the cheap.

North Jersey Community Bank paid a premium of 0.67 percent, less than \$300,000, for more than \$40 million in Citizens Community Bank deposits, and it took over the lease of the failed bank's office in Ridgewood to add a branch in a prime downtown location.

Investors Bancorp in Short Hills on Tuesday completed a \$99 million purchase of American Bancorp of New Jersey, to add five branches, more than \$600 million in assets and more than \$400 million in deposits. Investors Bancorp also announced last month that it will acquire six Banco Popular branches in New Jersey, including \$250 million in deposits for a 1 percent premium as struggling Banco Popular downsizes to cut costs. Investors Bancorp will gain a large presence in Clifton for the first time, with two branches from Banco Popular and one from American Bancorp. The American Bancorp deal also gives Investors branches in Bloomfield, Cedar Grove, Verona and Nutley. The Banco Popular deal includes two offices in Newark, one in East Orange and one in Montclair.

"It's a good time to be an acquirer, and we are fortunate to have some excess capital," said Domenick Cama, Investors Bancorp's chief operating officer.

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