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COVER STORY

New dawn for Twin Cities banks

NANCY KUEHN | MINNEAPOLIS/ST. PAUL BUSINESS JOURNAL

STORY BY JIM HAMMERAND

The Great Recession battered Minnesota's small banks, but they've turned a corner. See how the most profitable metro banks, like David Reiling's Sunrise Banks, are capitalizing on the rebound and find out which lenders are making a comeback. | 8-9

BY JIM HAMMERAND
STAFF WRITER

Twin Cities banks are better capitalized and more profitable now than any time since the financial crisis and the Great Recession that followed.

Each and every Twin Cities-based bank reported being well capitalized as of June 30, a *Minneapolis/St. Paul Business Journal* analysis of Federal Deposit Insurance Corp. data for 100 lenders shows. And while a half dozen banks lost more than a million dollars in the first half of 2012, none did so through the same period this year.

"There's definitely been a lot of healing in the past year," Sunrise Banks CEO David Reiling said. "There's significantly less loan losses, banks have cut expenses — we've seen some branch sales and closures there. They've been able to sell real estate that's on their books. They've been able to make some good progress."

Turning point

The first half was a turning point for many struggling banks. Edina-based Crown Bank lost nearly $2.5 million last year, but has been profitable since, earning $365,000 in the first half. Village Bank in St. Michael lost $1.5 million last year, but became profitable and well capitalized this year, so far earning $1.3 million.

"We've turned a corner," said American Bank of St. Paul CEO Tom Palmer, whose bank was pummeled by bad loans in the recession but is now among the most profitable in Minnesota.

Palmer came out of retirement to lead a turnaround at the bank. He cut expenses largely through branch closures, which fell most heavily on workers who were laid off. "We had good people here … but they were victims of the economy and the bank's condition." Palmer said.

After recording 20 straight quarters of losses (a streak that started before Palmer's arrival), the bank earned more than $4 million in the first half of 2013, making it the second-most profitable behind the smaller First Resource Bank in Savage.

Though there will be fewer one-time events like court victories and loss-reserve reductions that bring cash in, Palmer expects the rest of the year to be highly profitable.

"We feel good about it. It makes our employees feel good, it makes our customers feel better. It's very positive. It makes [for] a long year when you're losing money," Palmer said.

Witt

Launching point

Stronger lenders used the first half as a launching point. St. Paul-based Sunrise Banks brought its three legacy banks — Park Midway, University and Franklin — together under the Sunrise name on April

1 to offer new loan products and technology.

The consolidation will "take us to the next level," Reiling said. "We see a good amount of growth and opportunity on the horizon. … The future is bright for us. We can't wait for tomorrow."

Near-stagnant economic growth, fierce competition, low interest rates and new regulations will continue to challenge even the strongest banks, and Federal Reserve Bank of Minneapolis officials called the recent statewide gains "modest."

But the continued reduction in losses from bad loans is cause for celebration, Minnesota Bankers Association President and CEO Joe Witt said. "Every incremental step helps."

Troubled-bank work dries up

Herfurth

Bank performance lags the greater economy, but other signs show improving health at lenders.

Regulators have shuttered only one Minnesota bank in 2013. Federal Reserve Bank of Minneapolis officials expect 2013 to bring fewer Minnesota bank failures than prior years. Since 2008, 22 Minnesota banks have gone under, including January's shutdown of 1st Regents Bank in Andover.

Troubled-bank work slowed considerably late last year for consultant Mary Herfurth, whose Bank Advantage Consulting in St. Louis Park shifted toward reviewing loans and providing financial-modeling services.

"It just kind of dried up," she said. "I just don't have the troubled clients and capital- and liquidity-planning that I did in the past. … For the most part, the deals that can be fixed are well on their way to being fixed."

Winthrop & Weinstine bank lawyer Ed Drenttel is spending less time with regulators and more time with banks that are growing.

"During the crisis, banks were raising capital just to hang on. Now we're seeing capital-raising for growth and acquisitions," he said. "It makes the commute in every day a whole lot better."

Bankers feel the same way. Crown Bank CEO Peter Dahl is still fighting to recoup costs from convicted Ponzi schemer Tom Petters and other bad bets, but he's now only spending about 5 percent of his time working with problem customers and their loans, compared to 80 percent in the bank's darkest days.

Dahl

"We're much more focused on preserving the good client relationships as opposed to trying to get out of the distressed relationships," Dahl said. "We're getting back to business."

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CEO, American Bank of St. Paul

BEST RETURNS

Exactly 87 percent of Twin Cities banks were profitable in the first half of 2013, up from nearly 80 percent in the first half of 2012. The most profitable banks were:

Bank name, city	Return on average assets**	Net income/loss (in millions)	Assets (in millions)	Capital ratio*
First Resource Bank, Savage	2.90%	$1.19	$76.54	20.98%
American Bank of St. Paul, St. Paul	2.35%	$4.04	$324.19	6.22%
Venture Bank, Bloomington	2.07%	$3.83	$375.56	8.70%
Vermillion State Bank, Vermillion	2.00%	$5.10	$500.98	11.84%
Sunrise Banks, St. Paul	2.00%	$8.22	$786.08	10.11%
Summit Community Bank, Maplewood	1.96%	$0.60	63.13	17.34%
Fidelity Bank, Edina	1.95%	$4.14	$406.70	13.46%
VisionBank, St. Louis Park	1.92%	$0.30	$33.17	13.53%
Premier Bank Minnesota, Farmington	1.92%	$1.66	$170.91	9.08%
Prior Lake State Bank, Prior Lake	1.79%	$1.79	$193.56	13.35%
U.S. Bank, Minneapolis	1.66%	$2,862.36	$349,332.93	9.13%
Gateway Bank, Mendota Heights	1.63%	$0.88	$110.38	9.79%
Provincial Bank, Lakeville	1.57%	$0.57	$70.43	11.84%
Platinum Bank, Oakdale	1.55%	$1.12	$135.38	10.96%
Village Bank, St. Francis	1.52%	$1.30	$163.38	5.18%
Castle Rock Bank, Castle Rock	1.51%	$1.28	$166.32	13.11%

WORST RETURNS

Thirteen Twin Cities banks lost money in the first half of 2013, compared to 22 in the same time last year. They include:

Bank name, city	Return on average assets**	Net income/loss (in millions)	Assets (in millions)	Capital ratio*
Eagle Community Bank, Maple Grove	-2.25%	-$0.23	$20.85	5.23%
Flagship Bank Minnesota, Wayzata	-0.87%	-$0.41	$94.27	7.56%
Capital Bank, St. Paul	-0.53%	-$.10	$36.60	10.11%

CROSSING THE LINE

Four Twin Cities banks ended 2012 with capital levels under 5 percent, the line above which regulators consider banks "well capitalized." Regulators shut down one of them, 1st Regents Bank. The other three pulled their capital levels over the 5 percent level in the first half of 2013, and two became profitable. Here's how they performed in 2012 compared with 2013 year-to-date.

Bank, city	2012 Capital ratio*	2013 YTD capital ratio*	2012 Net income/loss (in millions)	2013 YTD net income/loss (in millions)
American Bank of St. Paul, St. Paul	4.54%	6.22%	-$4.89	$4.04
Village Bank, St. Francis	4.08%	5.18%	-$1.42	$1.30
Flagship Bank Minnesota, Wayzata	4.81%	7.56%	$0.20	-$0.41

*Tier 1 leverage/core capital ratio

**ROAA is annualized and includes profits and losses from noncontrolling interests. This measure is based on after-tax net income, but isn't precisely comparable because smaller banks organized as S Corporations pay less federal taxes by passing those tax expenses to shareholders, increasing bank profitability.

Source: Federal Deposit Insurance Corp. data from 100 metro-based lenders as of June 30